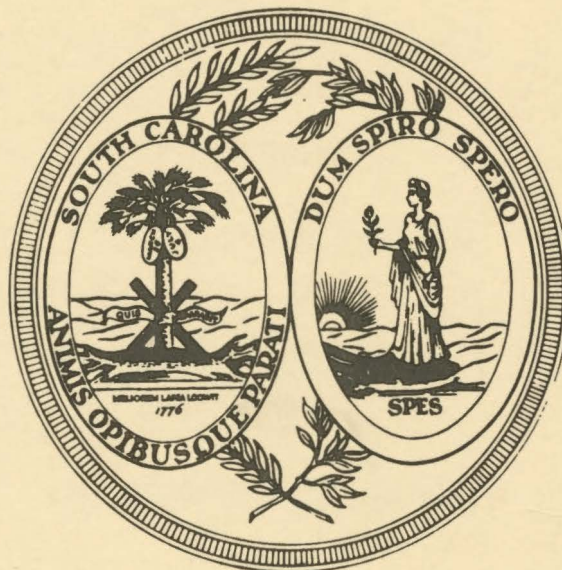


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Study of the
Implementation of the
Education Finance Act of 1977
December 16, 1980

STATE OF SOUTH CAROLINA

GENERAL ASSEMBLY

LEGISLATIVE AUDIT COUNCIL

STUDY OF THE

IMPLEMENTATION OF THE

EDUCATION FINANCE ACT OF 1977

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REPORT SUMMARY

The Education Finance Act directs the Legislative Audit Council to assess compliance with its provisions annually. This report is the first of these annual audits and, as such, presents a broad review of the Education Finance Act, touching on all levels of the State's education system. Future audits will be designed to focus on school district compliance with the Act and other specific areas of interest as requested by the General Assembly.

This report reviews progress in the implementation of the Act, noting any obstacles which could hinder its implementation; and reviews the initial impact of the Act upon public education in this State. Each funding component contained in the Act was studied. Fiscal and statistical analyses were conducted to test the validity and accuracy of the education information used for decision-making.

The fiscal and management practices of State and district administrations were reviewed. State procedures were analyzed to determine how public schools are monitored for compliance to State laws, and how the effectiveness of school programs is evaluated. All applicable State regulations and standards were reviewed, as well as other reports and research documents relevant to the Act. District financial records, enrollment records and audit reports were examined. Interviews were held with each member of the State Board of Education, many staff members of the Department of Education, legislative committee staff, education finance experts from other states, and many school district superintendents, principals and teachers.

The Audit Council appreciates the cooperation and assistance shown by the various education officials and staff who were instrumental to the conduct of this study. In particular, the effort provided by several districts' Special Education and Vocational Education teachers was essential to the "weight study" contained in this report. In only one instance did a district superintendent refuse to provide the information and assistance requested by the Council.

This report contains a background section and four chapters. Chapter I studies the overall fiscal effects of the Education Finance Act and analyzes each component of the funding formula. Chapter II reviews the effects of some special provisions of the Act and other aspects concerning the implementation and intent of the Act. Chapter III examines the role and structure of the State Board of Education and the State Department of Education in relation to the Act. Chapter IV presents an overview of the impact of school district financial practices upon implementation of the Act. Major issues found in each chapter are summarized below.

Chapter I - Analysis of the Education Finance Act Formula

The Education Finance Act establishes a multi-part formula to determine allocations to the State's school districts. According to eight different statistical analyses applied by the Audit Council, this funding system appears to be reducing inequities in the funds allotted on a per-pupil basis throughout the State (see p. 20).

However, certain problems with some aspects of the formula may impede smooth progress toward an equitable funding system. Most importantly, the present method of counting students makes it difficult

to obtain an accurate count for funding purposes. A sample of vocational and handicapped programs in 22 districts found that the students spent 70% of their time in programs other than those in which they were counted. The Act provides funding for different types of educational programs such as handicapped or vocational which are more expensive to provide than regular programs. Each program category is assigned a different "weight" to account for differing costs. The amount of State funds received by each district is primarily determined by the number of pupils counted in each weighted category. The Act specifies that each pupil can be counted as belonging to only one category, although many students are actually served by two or more program categories. Other states using a "weighted" system use a different method to accurately fund student needs.

Another problem associated with the method of counting students is the stipulation that at least 85% of funds generated by each student be spent in the program serving that student. The purpose of this requirement is to ensure accountability for the use of funds. Again, because many students actually spend their time in two or more programs and are counted in only one program, it is difficult for districts to spend 85% of the per-pupil allotment in one program without under-funding some other programs. In attempting to alleviate this problem, the State Board of Education enacted two regulations which relaxed the requirement in certain instances. However, in doing so, \$80 million was released from compliance with the eighty-five percent stipulation and no further accountability was required for those funds when audited by the State Department of Education.

Other methods of counting students are recommended which can provide both an accurate account of pupils' time and allow the eighty-five percent expenditure requirement to be fully implemented (see pages 44 and 50). Also, a study of the weights which provide for the relative costs of the programs indicates adjustments are needed to reflect more accurately the needs of students (see p. 55).

A third area which needs consideration is the projected inflation rate used annually to adjust the Base Student Cost. Analysis of the inflation rate computation shows that it includes components specifically excluded by the Act. A proper computation would have resulted in a reduction of \$782,641 allocated over a three-year period (see p. 41).

Chapter II - Special Provisions of the Act

Several areas reviewed in this chapter were found to have only minor difficulties in implementation. One significant problem, however, involves the "holdharmless" clause which has the potential to impede the implementation of the Act.

The holdharmless provisions of the Act (1) guarantee each district a level of funding equal to the funding received the year before the Act began, and (2) ensure that no district will receive less funds than it received in the prior year plus an inflation adjustment. In effect, holdharmless ensures a constant level of State funding to each district even though student populations may decline and local wealth may increase. With a declining student population projected statewide, holdharmless funds could increase greatly in future years. This counters the effects intended by the funding formula. In FY 81-82, about \$1.8 million will be paid to nine districts under current holdharmless provisions.

Changes in the Act are possible which would promote the implementation of the EFA funding formula, preserve the intent of the holdharmless clause, and save an estimated \$750,000 in FY 81-82 (see p. 62).

Another difficulty which may adversely affect the progress of the Act is that some school districts have little or no authority to raise revenues or determine their budgets. This authority often rests with other local political entities. Yet, it is the school district which will be penalized if certain provisions of the Act are not met, such as the 85% expenditure requirement or the required local tax effort. Therefore, some school districts may be penalized for matters not under their control (see p. 69).

Chapter III - State Oversight and Implementation

This chapter examines the role and structure of the State Board and State Department of Education in relation to the Education Finance Act. Emphasis is placed on the State's ability to monitor school districts for compliance to the Act, and to ensure the availability of an adequate educational program for every student.

A review was conducted of the implementation of Section Six of the Education Finance Act, which requires programmatic and fiscal planning by schools and district boards of trustees. Of prime importance is whether the system established by the Legislature - school advisory councils, annual school reports and annual district reports - is serving to communicate local needs and goals to school district and State administrators.

The findings in this chapter indicate that the State Department of Education needs to refine its oversight function. The Department

currently reviews school districts for compliance to laws but does not evaluate schools to see if they effectively use educational resources to improve student learning. The Department has the resources necessary to establish a comprehensive system that could monitor school compliance and assess educational quality (see p. 79).

Additionally, the current school monitoring and accreditation system could be improved with a more accurate and appropriate data base and more suitable accreditation ratings. The Education Finance Act requires that a minimum education program be available for every student. The Defined Minimum Program, which every school must offer, needs more emphasis on the use of resources and student performance (see p. 95).

Clearer guidelines from the State Department of Education could benefit school advisory councils, and school and district reports, as established by the Act. The Department needs to streamline its review of the school reports and at the same time ensure that the goals and needs contained in these reports are reflected in statewide planning and evaluation systems (see p. 104).

Chapter IV - District Level Management

The Education Finance Act mandates that school districts pay their "fair share" of money to support education. The local share is determined principally by the amount of property wealth in a school district. The Act further specifies that districts are to phase-in annually an amount of local funding for education in order to reach the required level by 1983. An analysis of local funding shows that most school districts will have fulfilled their funding obligations by 1983, if they continue at their present rate of increase.

The State Department of Education has no formal system to monitor annual district compliance with the phase-in provisions of the Act. Also, the General Assembly may need to clarify the law regarding the calculation of local effort (see p. 129).

In addition, a review of 26 school districts' accounting practices calls into question the accuracy of district fiscal records. Many districts do not maintain records in a standardized format and have not submitted this data in a timely manner, according to State guidelines. The State Department does not require that districts follow specific accounting procedures and has not always enforced its own fiscal reporting requirements. This situation makes it difficult to maintain proper oversight and ensure that education funds are spent appropriately (see p. 118).

Conclusion

Although several obstacles exist, the overall conclusion of this report is that the Education Finance Act is working. While factors can change from year to year, the Act has resulted in more equitable funding for individual students among the State's school districts. However, changes may be needed to ensure that certain components of the Act are viable and can achieve the overall intent of the Act. In addition, there are some problems with district implementation of the Act. The future success of the Act may depend upon continuing guidance and direction provided by the General Assembly.

A review of the Education Finance Act brings into focus another key issue which may need legislative consideration. The language of the Act may need to be revised to more clearly assign responsibility to the State Board of Education and the State Department for ensuring

that the intent of the Act is met. One of the expressed purposes of the Education Finance Act is to... "ensure that tax dollars spent in public schools are utilized effectively and to ensure that adequate programs serve all children of the State." The State Department of Education's position is that the Act does not specifically name the State Board and the State Department as responsible for ensuring this outcome. However, it appears that if the intent of the Act is to continue to be fulfilled, the State Board and the State Department need to move toward more active participation in oversight. The General Assembly may need to clarify the role of the State Board and the State Department in light of the Finance Act, as it relates to ensuring that local school districts are meeting the individual needs of students.

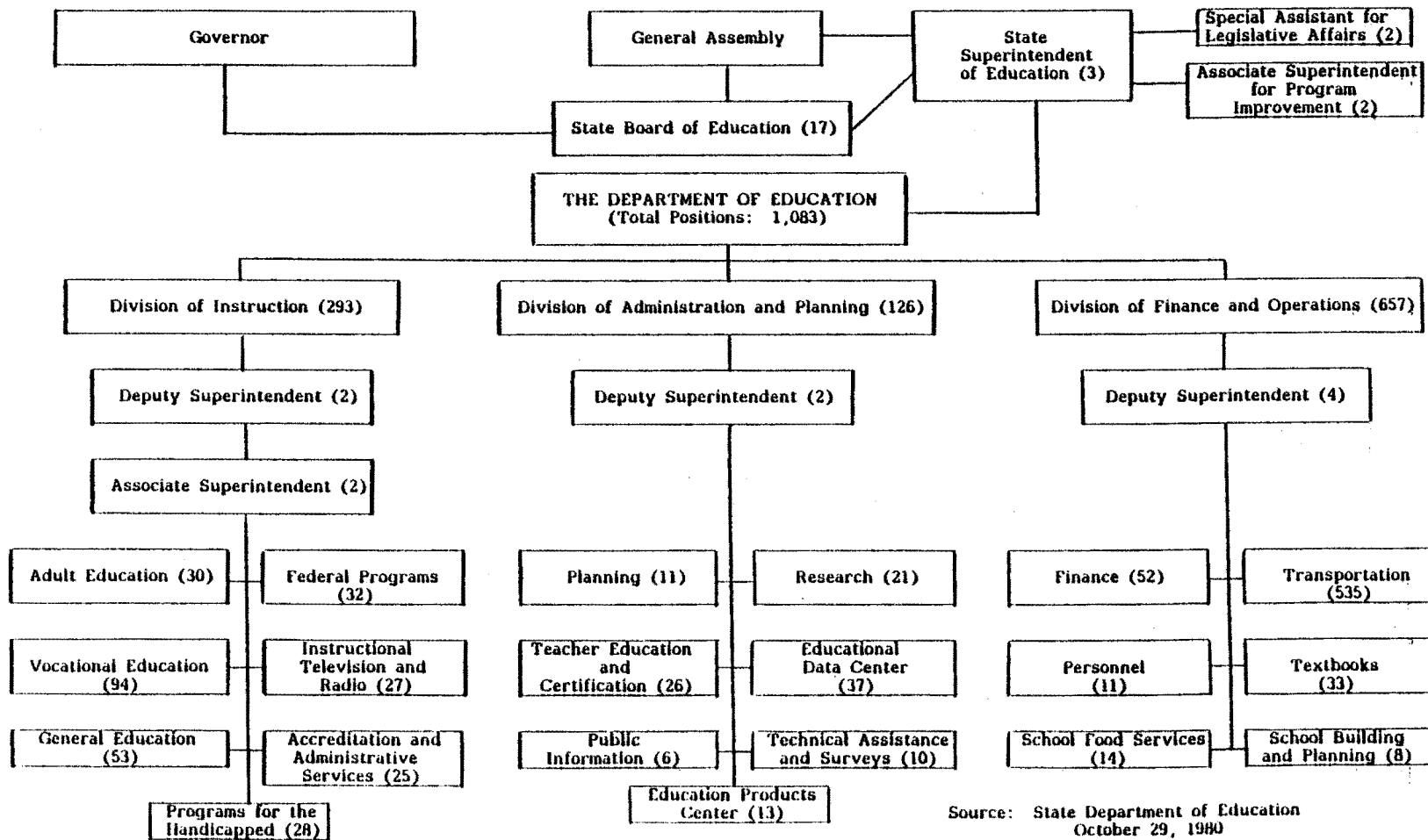
The recommended oversight role for the Board and Department of Education, has as its purpose, counsel and aid to the districts in meeting the districts' responsibility to ensure adequate educational opportunities substantially equal to those in other districts. It is the responsibility of local school districts to determine student needs and the most appropriate means to fulfill them. The control of this educational process should remain at the local level. The recommendations given in this report on providing oversight should enable the districts to receive a greater degree of constructive assistance from the Department of Education and should allow for more timely and accurate information for the General Assembly. In this way, the performance of the Education Finance Act may be better understood and the inequities found in the system may be corrected.

BACKGROUND

(1) Overview of State Education System

Regulation of education in South Carolina is constructed on two levels, State and local. The State Board of Education, the State Superintendent of Education and the State Department of Education compose the framework on the State level. This structure dates from 1963 when two other State organizations, the Finance Commission and the Schoolbook Commission, were dissolved and their duties were given to the State Board of Education.

The State Board is composed of 17 members, 16 appointed by the Legislative Delegations from the Judicial Circuits and one appointed by the Governor. The Board sees its primary role as that of a policy-making body. The State Superintendent, a constitutional officer elected by the people, serves as secretary and administrative officer to the State Board. According to the Board's educational philosophy, the State Superintendent is the primary educational leader in the State. The duties assigned the Superintendent by law encompass such tasks as organizing and administering a State Department of Education and effecting, through the Department, all policies of the State Board. The State Board, in fact, has no administrative authority over the Department of Education; that authority being assigned only to the State Superintendent, according to a 1965 Attorney General's opinion (No. 2210, pg. 355 and No. 2203, pg. 64).



Source: State Department of Education
October 29, 1980

The Department of Education has no enabling legislation in the traditional sense. The creation of the Department and the statement of its organizational purpose is found in the duties assigned the State Superintendent. The Superintendent is to:

Organize, staff and administer a State Department of Education which shall include such division and departments as are necessary to render the maximum service to public education in the State. [Section 59-3-30(3)].

The organizations and structures for the local administration of the 92 school districts generally follow a pattern which is similar to that of the State. Local districts have boards of trustees which determine policy, district superintendents to manage the districts, and "central office" staffs to provide assistance to the schools and school personnel.

The authority of the State Board of Education over the State's elementary and secondary educational system is enumerated in the ten powers delegated to it. Generally, the Board adopts minimum standards for any phase of education; determines the certification of teachers; sets the course of study and textbooks; and adopts rules and regulations to govern the public schools (Section 59-5-60). This state authority is combined with the authority of district boards of trustees. The local school boards have the power to employ school personnel, provide school facilities, and manage and control the educational interests of the district (Section 59-5-60).

(2) The Education Finance Act

The Constitution of South Carolina, in establishing that education is a responsibility of the State, mandates that:

The General Assembly shall provide for the maintenance and support of a system of free public schools open to all children in the State and shall establish, organize and support such other public institutions of learning, as may be desired. Article XI, Section 3.

In continuing to meet this responsibility, the General Assembly ratified Act Number 163 of 1977, the Education Finance Act, and its implementation began with school year 1978-79. The purposes of the Act can be divided into three major areas: equity of funding for a basic educational program, equity of effort for taxpayers, and availability of comparable educational programs for all primary and secondary school students.

To fund the schools prior to 1977, the State relied on a "flat-grant" system which allocated dollars to school districts based on pupils, staffing, or a percentage of a district's expenditures for an activity. This system resulted in inequitable funding for individual pupils among the State's school districts. Because local funds for education come from property taxes, and the property wealth of each district has varied, the funds available to operate district schools have varied.

A 1972 study conducted by Syracuse University on the financing of South Carolina's education system revealed that poor districts, taxing themselves at a rate almost three times greater than that of wealthier districts, could generate only half as much revenue. The State funding system, while not creating inequities in the financing, did nothing to reduce the differences created by variances in local wealth. As a result, the five wealthiest school districts averaged \$515 per pupil in State and local revenues, while the five poorest averaged \$351 per pupil, a 47% difference per pupil.

Other states' finance systems for education resembled South Carolina's and in the early 1970's a nationwide awareness of the need to provide "equity" in the financing of schools developed. Also, court decisions in these states criticized systems that resulted in substantial funding differences among school districts. These decisions noted that, if a state's finance system required an unequal tax burden to be placed on property owners in order to provide the same or lesser quality of education, then such a state system was "suspect" of being discriminatory.

South Carolina's policy makers, concerned with equity in education, changed the method of State funding to local school districts. The Education Finance Act is to be phased in over a five-year period and fully implemented in 1983. At this time, the amount of State funding for a school district will vary with each district's ability to obtain local revenues for schools. Districts with a smaller amount of property wealth will receive a larger amount of State aid up to a minimum funding level. This is to enable each district to provide a required minimum education program for each student, along with a more equitable tax burden for taxpayers. With this method, inequities of education funding caused by the happenstance of property wealth should be reduced.

The Act also addresses the differences in the costs of providing different types of school programs. For example, a vocational program needing small classes and special equipment is more expensive to run than an academic program. The Act provides for funding which relates to the relative costs of the various programs.

The concerns of the Education Finance Act go beyond those of financial equity. A second, equally important goal is to guarantee to each student a basic education appropriate to his or her needs. By committing State funds toward ensuring that every school will live up to a specified set of educational standards, the Act may bring about equal educational opportunities for every student in the State.

In an attempt to assure program effectiveness, the Act emphasizes the evaluation of district and school needs and staff development. Districts are to have a long-range plan and are to examine how well the goals and objectives of the plan are being met. A statewide testing program is required which assists in planning and evaluation by enabling districts and individual schools to observe student performance in fundamental skills.

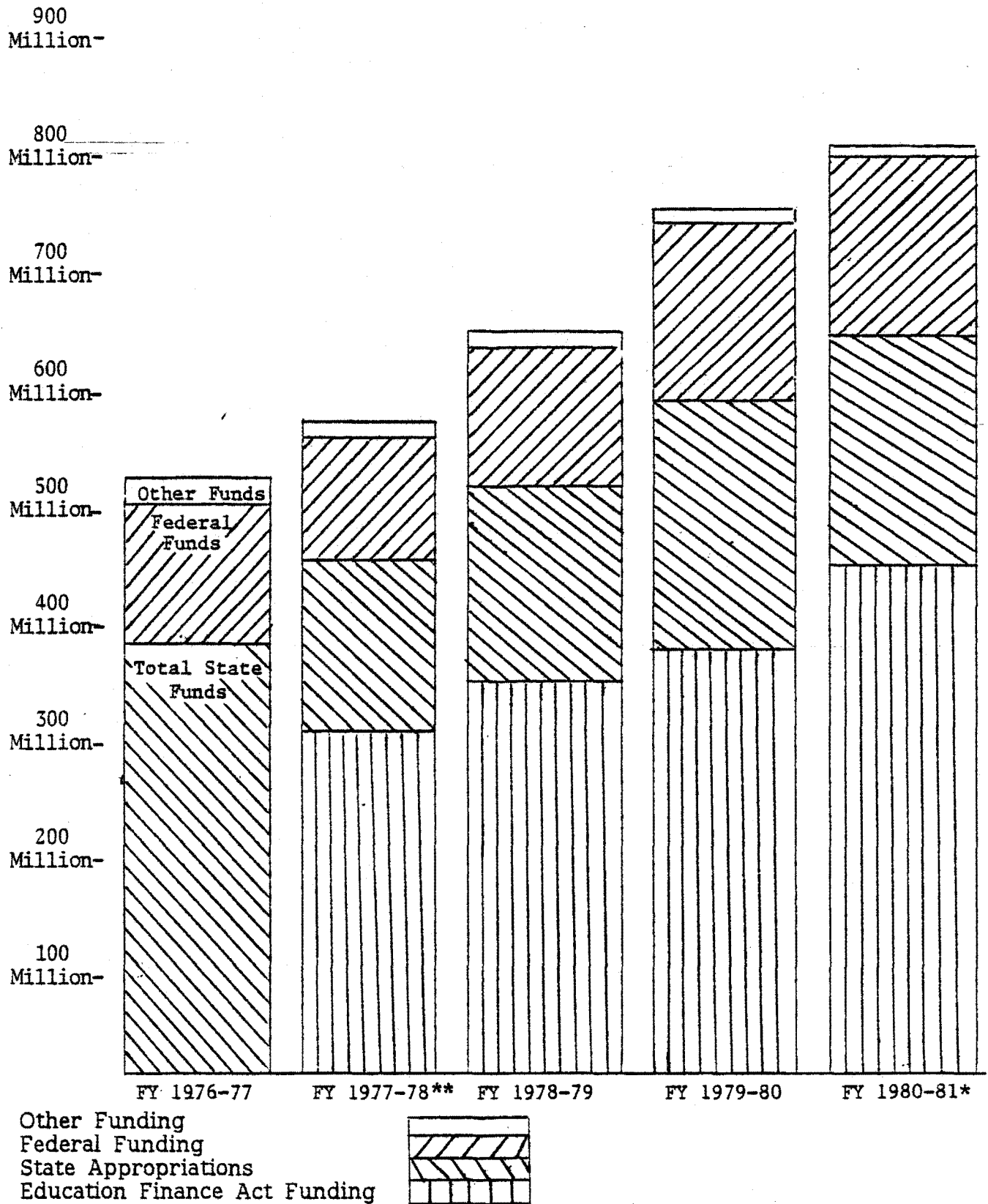
This statewide effort to improve the effectiveness of local district programs is to be supported by technical and programmatic aid from the State Department of Education. The Department also is directed to monitor programs and appraise districts' goals and plans.

In conclusion, the Education Finance Act reaffirms that meaningful education opportunities for all the State's students are a fundamental State interest. The self-governing school district, while continuing to be of primary importance for meeting local needs, is to be balanced with overall State goals.

The following tables show the source and use of education funds for five fiscal years (FY 76-77 to FY 80-81) and percentage increases in different fund categories.

TABLE 1

GROWTH IN EDUCATION EXPENDITURES FY 1976-77 TO FY 1980-81



*Estimated

**EFA did not begin until FY 78-79. The amount shown is for comparative purposes.

TABLE 2
STATE EDUCATION FUNDING PERCENTAGE INCREASE
IN EXPENDITURES
FY 1976-77 TO FY 1980-81

	<u>FY 77-78</u>	<u>FY 78-79</u>	<u>FY 79-80</u>	<u>FY 80-81</u>
EFA Funds	N/A	13%*	13%	13%
Total State Funds	14%	13%	18%	8%
Federal Funds	2%	12%	20%	8%
Other Funds	(19%)	(29%)	(10%)	(90%)
Total Funds	10%	11%	18%	6%

*Not actually EFA, for comparative purposes, funds have been separated.

TABLE 3

STATE DEPARTMENT OF EDUCATION

STATEMENT OF SOURCES AND USES OF FUNDS FY 1976-77 TO FY 1980-81

<u>Sources</u>	<u>FY 1976-77</u>	<u>FY 1977-78</u>	<u>FY 1978-79</u>	<u>FY 1979-80</u>	<u>FY 1980-81</u>
State Funds	\$397,697,650 ⁽⁷⁾	\$451,562,605	\$508,410,906	\$599,506,640	\$647,642,530
Federal Funds	108,949,952	111,514,638	125,170,240	149,646,353	161,103,764
Other Funds	25,163,809	20,293,416	14,311,971	12,951,121	1,280,393
Total Sources	<u>\$531,811,411</u>	<u>\$583,370,659</u>	<u>\$647,893,117</u>	<u>\$762,104,114</u>	<u>\$810,026,687</u>
 <u>Uses</u>					
State Board	\$ 32,974	\$ 33,215	\$ 41,453	\$ 48,321	\$ 40,831
State Department:					
Office of Superintendent	107,404	123,614	149,886	256,490	224,260
Division of Instruction:					
Office of Federal Program	40,904,792	42,840,214	54,852,520	58,925,101	62,034,644
Office of Vocational Education	36,524,726	18,875,825	18,151,322	20,582,550	17,924,869
Office of Program for Handicapped	3,345,600	2,913,327	6,477,240	9,925,489	15,398,668
Other Programs ⁽¹⁾	15,701,291	9,309,645	9,100,737	9,750,260	12,317,819
Total Instruction	96,476,409	73,939,011	88,581,819	99,183,400	107,676,000
Division of Administration and Planning	1,963,560	1,971,250	2,095,465	2,208,281	2,572,535
Division of Finance & Operation:					
Office of School Planning and Building	17,561,168	18,893,686	22,823,970	30,879,661	19,356,095
Textbooks and Films	6,069,291	8,026,235	9,606,919	6,665,276	9,549,203

TABLE 3 (CONTINUED)

<u>Uses (Continued)</u>	<u>FY 1976-77</u>	<u>FY 1977-78</u>	<u>FY 1978-79</u>	<u>FY 1979-80</u>	<u>FY 1980-81</u>
Office of School Food Service	\$ 48,504,483	\$ 48,819,474	\$ 46,048,808	\$ 63,687,226	\$ 64,761,896
Transportation	29,799,367	32,586,654	30,605,320	41,651,813	44,186,954
Other Expenditures	262,129,549 ⁽²⁾	2,301,913	2,450,668	14,410,212 ⁽³⁾	3,671,749
Total Finance & Operations	364,063,858	110,627,962	111,535,685	157,294,188	141,525,897
Employee Benefits ⁽⁴⁾	69,167,206 ⁽⁵⁾	86,083,391	93,607,055	105,334,899	108,198,977
Education Finance Act	-	310,592,216 ⁽⁶⁾	351,881,754	397,778,535	449,788,187
Total Uses	<u>\$531,811,411</u>	<u>\$583,370,659</u>	<u>\$647,893,117</u>	<u>\$762,104,114</u>	<u>\$810,026,687</u>

- (1) Other programs include Adult, General, and Teacher Education & Certification, and Instructional TV.
 (2) Other Expenditures include Offices of Deputy Superintendent, Finance, and Personnel for FY 1976-77.
 (3) Other Expenditures for FY 1979-80 include \$11,605,684 of Non-Recurring Appropriation.
 (4) Employee benefits include both Public School Employee Benefits and Total Employee Benefits.
 (5) Employee Benefits for FY 76-77 include \$68,774,699 Employee Benefits for Public Schools.
 (6) EFA did not begin until FY 78-79, expenditures are included here for comparative purposes.
 (7) Included in the figures is \$68,774,699 for public school employee benefits obtained from the State Personnel Division and the State Retirement System.

Source: State Budget Document (FY 1976-77 through FY 1978-79). State Department of Education FY 1979-80 to FY 1980-81.

CHAPTER I
ANALYSIS OF THE EFA FUNDING FORMULA

Introduction

The overall goal of the 1977 Education Finance Act is to guarantee every student in the State an adequate educational opportunity. The Act required significant changes in State and local financing of education. These changes are intended to correct previous inequities in educational financing from district to district, and to provide suitable programs for meeting the needs of individual students. In order to achieve these goals, the Act guarantees that the State will fund up to a statewide average 70% of the basic education program. Special provisions are included for funding the needs of students who require extra or specialized instruction. This chapter is concerned with the issue of "equity" and the formula contained in the Act to increase equity.

In past years there has been considerable difference in the amount of revenues generated per pupil in poorer school districts and the amount of revenues generated in school districts with a wealthier property tax base. To achieve more "equity" the system attempts to reduce the range or "gap" between the districts with the lowest per-pupil revenues and districts with the highest per-pupil revenues. In addition, it is more desirable to reduce the range by raising the per-pupil revenues in the poorer districts rather than lowering the revenues in the wealthier districts. To this end, the Act contains a formula designed to allocate State education funds to school districts in an equitable manner.

The important components of the EFA formula that determine allocations to school districts are:

- (1) the cost of providing the minimum school program for one year for one student (Base Student Cost);
- (2) the number of pupils in a district (Average Daily Membership);
- (3) the relative costs of different school programs (Weighting System); and
- (4) the measure used to determine local share of funding (Index of Taxpaying Ability).

The following sections analyze the ability of this funding system to serve legislative intent in terms of each component of the EFA formula and of how the system works as a whole.

Impact of EFA Funding

The implementation of the Education Finance Act has resulted in more equitable funding for individual students among the State's school districts. One of the purposes of the Act is:

To guarantee to each student in the public schools of South Carolina the availability of at least minimum educational programs and services appropriate to his needs, and which are substantially equal to those available to other students with similar needs and reasonably comparable from a program standpoint to those students of all other classifications, notwithstanding geographic differences and varying local economic factors. [Section 59-20-30(1)]

The Council examined the statewide impact of the Act on the funding levels of all 92 school districts using eight statistical measures. These analyses indicate that the inequity in revenues per pupil, caused by the varying local economic factors (taxable property wealth), has been reduced under the new State funding system. Only the first year's effect on funding could be analyzed because school districts did not meet the State's mandated deadline for financial reporting in the second year (FY 79-80) of the EFA.

The Council also examined the effect of the Act on district revenues based on pupil needs. The weighted pupil count was used as an indication of pupil need since the weightings represent handicapped categories, vocational education and grade levels of individual students. The statistics indicate that disparities in district revenues per weighted pupil are being reduced also.

Statistical analyses were applied to State and local revenues for FY 77-78 and FY 78-79. A study performed by the Education Commission of the States provides South Carolina statistics for FY 72-73 and FY 75-76. Tables 4 and 5 show the measures used by both studies to analyze the effects of the Act, in terms of revenues per pupil and revenues per weighted pupil units. A detailed explanation of each measure is included in Appendix D, while a more general review follows.

Those measurements which are used to examine "ranges" compare differences among various districts' revenues on a scale from the lowest revenue per pupil to the highest. Results indicate that, generally, the disparity between the high expenditure districts and the low expenditure districts has been reduced since the implementation of the Act. For example, the difference between the highest revenue per-pupil district, and the lowest declined from \$1,072 per pupil to \$938; a decrease of 12.6% over a two-year period. This occurred because the revenue per pupil in the lowest district increased by 35% between 1977-78 and 1978-79, while the increase in the highest revenue district was only 3.6%. The difference in revenues between the two districts for weighted pupils also decreased from \$898 to \$761.

One of the restricted ranges (statistical measure 2), however, demonstrates an increase in disparity. This measure shows the difference

between revenues for the fourth and fifth highest revenue district and the fourth and fifth lowest. It appears that the effects of the holdharmless clause and the phase-in of required local effort affected these districts' revenues and, therefore, the increase in disparity.

The relative mean deviation and the coefficient of variation measurements show generally favorable results with districts' revenues varying less from the average overall revenue. Another indication of improvement in funding for the lower revenue districts is the McLoone Index. This measure examines the amount of State and local funding which would be needed to raise the revenues of all lower revenue districts up to the State median for per pupil revenues. The amount of funds needed declined by 34% between the year prior to the EFA and the first year of implementation.

The Council examined the statistical strength of the relationship between district property wealth and per-pupil revenue and found that it declined slightly during the one year of observation after the EFA. Both the correlation coefficient and the elasticity measures support this observation.

This review shows that the State is progressing toward the goals of the Education Finance Act. In FY 77-78, the highest revenue district had almost three times the money available per pupil over the lowest district and now this disparity is being reduced.

TABLE 4

MEASURING THE DISPARITIES AMONG THE 92 SCHOOL DISTRICTS

BASED ON LOCAL AND STATE REVENUES PER PUPIL

Statistical Measure		72-73 ¹	75-76 ¹	77-78	78-79	Percentage of Increase (Decrease) ² 77-78 to 78-79
1.	RANGE			\$ 1,072.40	\$ 937.62	(12.6)
	Lowest			554.86	747.51	
	Highest			1,627.26	1,685.13	
2.	RESTRICTED RANGE	\$296	\$604	\$ 479.27	\$ 509.40	6.3
	Lowest (5%)			682.81	824.88	
	Highest (95%)			1,162.08	1,334.28	
3.	RESTRICTED RANGE			\$ 214.52	\$ 185.21	(13.7)
	Lowest (25%)			789.26	926.21	
	Highest (75%)			1,003.78	1,111.42	
4.	FEDERAL RANGE	.81	1.05	.71	.62	(12.7)
5.	RELATIVE MEAN DEVIATION			.130	.106	(18.5)
6.	MCLOONE INDEX	.905	.868	.881	.928	5.3
	Dollars needed to bring bottom-half up to the median based on the McLoone Index			\$66,141,716.32	\$43,576,368.97	(34.1)
7.	COEFFICIENT OF VARIATION	15.3	20.9	18.14	14.74	(18.7)
8.a.	CORRELATION COEFFICIENT between wealth and revenue	.76	.55	.61	.59	(3.3)

TABLE 4 (CONTINUED)

<u>Statistical Measure</u>	<u>72-73¹</u>	<u>75-76¹</u>	<u>77-78</u>	<u>78-79</u>	<u>Percentage of Increase (Decrease)² 77-78 to 78-79</u>
8.b. ELASTICITY between wealth and revenue	.38	.36	.25	.19	(24.0)

¹Source: Equity in School Finance, October 1979, by: Education Commission of the States.

²For each of these statistics, except the McLoone Index, a decrease numerically signifies a reduction in differences in revenues.

TABLE 5
MEASURING THE DISPARITIES AMONG THE 92 SCHOOL DISTRICTS
BASED ON LOCAL AND STATE REVENUES OF
WEIGHTED PUPIL UNITS

<u>Statistical Measures</u>	<u>1977-78</u>	<u>1978-79</u>	<u>Percentage of Increase (Decrease)¹</u>
1. RANGE	\$ 898.13	\$ 760.59	(15.3)
Lowest	459.30	632.16	
Highest	1,357.43	1,392.75	
2. RESTRICTED RANGE	\$ 386.26	\$ 421.81	9.2
Lowest (5%)	550.13	675.27	
Highest (95%)	936.39	1,097.08	
3. RESTRICTED RANGE	\$ 178.10	\$ 151.12	(15.2)
Lowest (25%)	639.44	770.26	
Highest (75%)	817.54	921.38	
4. FEDERAL RANGE	.702	.625	(11.0)
5. RELATIVE MEAN DEVIATION	.130	.105	(19.2)
6. MCLOONE INDEX	.89	.93	4.5
Dollars needed to bring bottom-half up to median based on the McLoone Index	\$62,088,773.12	\$45,034,398.34	(27.5)
7. COEFFICIENT OF VARIATION	18.35	14.63	(20.3)
8. CORRELATION COEFFICIENT between wealth and revenue	.62	.59	(4.8)

¹For each of these statistics, except the McLoone Index, a decrease numerically signifies a reduction in differences in revenues.

Index of Taxpaying Ability

The index of taxpaying ability and its components have served well during the implementation stage of the State's finance act. The Council's review indicates, however, that once fully implemented, changes in the components may need to be considered by the General Assembly.

Future changes in the tax laws, especially those affecting the manufacturing industry, could have an impact on the amount of local revenue available for EFA. If changes in the tax laws are being considered by the Legislature, this possible impact should be taken into account.

The Education Finance Act mandates that districts contribute a fair share to the support of educational programs in direct proportion to each district's taxpaying ability. This "ability" to support education depends on the value of the property within the district, since the major source of local revenue for education is property tax. The index of taxpaying ability indicates the relative share or percentage of the State's total assessed property wealth that is contained within each district. It is this percentage that is used to calculate the amount of funding required to be contributed by the district.

The Council researched the problems associated with finance components based upon property wealth and examined factors considered necessary for an equitable formula. The history of legislation in other states was reviewed, the literature dealing with education finance was examined, and legislators, administrators and educators from outside South Carolina were interviewed.

Within the literature and among education finance specialists, there was a consensus on the conditions required before property wealth could serve as an equitable measure of ability to support education.

The two conditions are that property taxes be the sole source of local revenue for education, and the value of property be determined on an equal basis across political subdivisions.

South Carolina meets the two conditions for using property wealth in its funding allocations. The first condition is met, because nearly all local school revenue is raised through a tax on property. The second condition is met since provisions have been made to ensure that property is appraised and assessed in an equitable manner throughout the State.

Act 208 of 1975 directs that for taxing purposes a piece of property is to be appraised based on its "full market value"; the price it would bring if sold under normal market conditions. The law also sets an assessment ratio which is the percentage of the appraised property value on which a tax can be levied.

To ensure that the "full market value" standard will always be met, EFA directs the Tax Commission to make sales ratio studies [Section 59-20-20(3)]. These studies ensure that counties which have not reappraised their property (as required by Act 208), or counties whose appraisals fall below "full market value" will be measured by the full worth of their property, and not by an out-of-date appraisal. This feature, which provides a check to ensure the equity of the property appraisals, is important for the success of EFA. Other states whose education finance laws did not address this issue have not been successful.

The Education Finance Act, and the index, cover only specific areas of education. Such costs as capital outlay and adult education are excluded from the Act. Also, some State requirements are not

included in the Base Student Cost and, therefore, are not covered by the equity formula of EFA.

Two factors relate directly to the ability of the districts to provide educational services which are not covered by EFA. The first factor is the relative number of school-age children within a district. The second is the percentage of district property wealth contributed by manufacturers.

(1) Size of Student Population

The Council's study of South Carolina school districts and funding for education shows that while districts' wealth might be similar, the ability to meet the demand for local revenue on a per-pupil basis was affected by the size of the student population. In other words, if two districts are relatively equal in property wealth but one district has many more students than the other, the ability of that district to support its educational system is not equal to the other district's ability. For example, one district with an index of .00788 had a student enrollment of 5,375 for 1978-79, while another district with an index of .00789 had 6,129 students enrolled.

In the Act, the weighted pupil system and the computation of required local effort ease the effect of this factor. State funds are provided based on pupil numbers and the programs they need. However, for educational requirements outside the EFA, there is no mechanism to increase the ability of local revenue to provide for variations in needs.

(2) Amount of Manufacturing Property

The second factor which affects the local revenues available for schools is the percentage of district property wealth which is contributed by manufacturers. South Carolina assesses manufacturing and utilities at 10.5% while other types of property are assessed at 4% and 6%. The more property in a district assessed at 10.5%, the larger the potential revenue. This means that districts with a large manufacturing sector can meet additional revenue requirements with less strain on the district's homeowners. Table 6 illustrates how this can occur in districts with the same property wealth (appraised property value).

These factors will increase in importance as costs of education increase. Those districts with a large student population and a smaller manufacturing sector will be forced to depend more heavily on residential and agricultural property taxes to meet educational costs not included in the Education Finance Act. If the General Assembly considers legislation on education to be funded outside the formula of the Act, the varying abilities of districts to support such requirements should also be considered.

TABLE 6

THE EFFECTS OF MANUFACTURING AND UTILITIES PROPERTY ON LOCAL FUNDS

AVAILABLE FOR EDUCATION

(Hypothetical Example)

Class of Property	District A				District B			
	Appraised Value	x	Assessment Ratio	= Assessed Value	Appraised Value	x	Assessment Ratio	= Assessed Value
Residential & Private Farms	\$ 67,500,000	x	.04	= \$ 2,700,000	\$108,500,000	x	.04	= \$4,340,000
Rental & Corporate Farms	22,000,000	x	.06	= 1,320,000	31,000,000	x	.06	= 1,860,000
Subtotal for Non-Manufacturing	89,300,000			4,020,000	139,500,000			6,200,000
Subtotal for Manufacturing & Utilities	74,000,000	x	.105	= 7,770,000	24,000,000	x	.105	= 2,520,000
TOTAL	\$163,500,000			\$11,790,000	\$163,500,000			\$8,720,000

Property Value \$163,500,000

Property Value
which can be taxed \$ 11,790,000

Property Value \$163,500,000

Property Value
which can be taxed \$ 8,720,000

Because District A has a larger manufacturing and utilities sector; it has 35%, or \$3,070,000, more property value (assessed value) which can be taxed.

Base Student Cost Studies

Introduction

The amount of State and local funding provided under the Education Finance Act is calculated on the Base Student Cost. This cost is the amount deemed necessary to fund a minimum educational program for a student in the elementary (4-8) grades. For 1978-79, the Base Student Cost was funded at \$683 on the basis of a 1976 State Department of Education cost study which used the elements of the State Board of Education's Defined Minimum Program in the cost estimate. A second cost study conducted in 1979 by the State Department of Education estimated that \$663 was the cost of providing the Defined Minimum Program.

The Audit Council reviewed these studies to ascertain the appropriateness and suitability of the elements included and the methods used in calculating the costs. The results indicate that the 1976 study exceeded the requirements as stated in the Defined Minimum Program, while the 1979 study, which interpreted the State standards more rigidly, may have understated the cost.

Because the Council questioned some of the costing methods in both studies, it conducted a third cost study. The costs were computed by the Council using both the State average minimum salaries as well as the State's average salaries. The study found that for 1978-79, in districts paying the State minimum salaries (34 districts), the cost of meeting the Defined Minimum Program was \$677. For districts paying above the State minimum in salaries (58 districts), the cost of meeting the DMP averaged \$691. Therefore, based on SDE and Council studies, the funding provided for education under the Education Finance Act allows the State's school districts to provide the Defined Minimum Program.

The differences between the two SDE cost studies and the Council's study are discussed below. Cost elements for the educational program in all three studies were essentially the same. School level elements included teachers and instructional supplies, principals and other support staff, as well as support costs. District level elements included the superintendent, support staff and supplies, and district operation and maintenance costs.

1976 SDE Base Student Cost Study

The 1976 study applied educational program elements beyond a reasonable level for a minimum program. The study applied the elements on three "levels"; specifically stated or defined requirements, implied programmatic requirements, and needed requirements for improving the standards. The "required" level included only the levels of staffing and budgeting specifically defined in the DMP, while the "implied" level increased the staff numbers and/or funding to amounts thought to be actually needed in order to comply fully with the DMP. The "needed" level included practices considered to be improvements to South Carolina's education system. These three levels of program elements were applied to a hypothetical 6,000-student district, the average size for the districts in the State.

The Audit Council's review of the study indicates two questionable areas concerning costing and methodology. First, by including "needed" level of elements, the study appears to have exceeded both the DMP required levels and current practice in the State. For example, Southeastern average salaries were used in computing personnel costs. In 1976, the Southeastern average for teachers' salaries was \$10,469,

compared to South Carolina's average salary of \$9,904; therefore, the salaries used in the study showed personnel costs to be 6% higher than South Carolina's average. Also, the 22 personnel positions included at the district level appear to exceed State practices. The Council examined the staffs of 30 districts for 1978-79 and found that only the State's 15 largest districts (over 10,000 students) usually require a staff that size for the minimum educational program.

Second, the method for calculating district operations appears to have resulted in excessive costs. Since the district used in the study was a hypothetical one, the costs for district administration and for maintenance and operations had to be created. Administrative costs at the district level were derived by taking 25% of the total district level salaries. Other operations and maintenance costs were derived by taking a percentage of instruction and administration costs. The Council examined expenditure patterns in 15 districts and found little support for the percentages used to calculate these costs. Since instructional and administrative costs apparently exceeded the minimum program, it is questionable how well the operations expenses derived from these costs represent actual requirements.

1979 SDE Base Student Cost Study

The cost elements of the 1979 study closely resembled those of the 1976 study. However, the later study used 18 of the State's actual school districts, which varied in size from 1,075 students to 11,700. Actual districts' expenditures were used in determining costs in such areas as operations and maintenance, and school support costs. Administrative costs at the district level were computed by taking 25%

of the superintendent's salary which was set at \$30,683 for each of the 18 districts. Other personnel costs were computed on the State's minimum average salaries.

The Audit Council's review of the study found that the strict application of the DMP requirements resulted in an understatement of administrative costs. The study includes in the costs only two people to administer a district in accordance with State minimum standards. The Council's review of districts' administrative staffs and support costs indicates that both the number of positions included and the method of computing administrative support costs were conservative. The DMP lists by title only two positions needed at the district level, however, the standards note a number of functions to be performed at the district level and the need for most districts to employ additional staff. The Council found that in 16 districts, whose size reflects the State's median of 3,976 pupils, generally three additional positions are needed at the district level to provide the services necessary for meeting DMP requirements. An examination of actual district administrative costs indicates that the \$.95 per student derived by the 1979 study is below the average expenditure of \$2.38 for the 18 districts in the Council's study.

Also, in determining school administrative costs, the 1979 study was conservative in ascertaining the number of positions needed to administer schools in accordance with State requirements. For example, the DMP states that a full-time principal is not a requirement in a school housing grades 1-6 until there are 375 students (this number indicates a teaching staff of 14). A question is raised as to how well school administrative costs calculated so conservatively can reflect the

actual costs of providing the minimum program. Minimum school administrative requirements define certain duties to be performed as well as prescribe a particular ratio of students to administrative personnel. For instance, the DMP requires a principal to spend 50% of his time improving instruction in the school. A problem could arise when a half-time principal, in a school of 300 students, attempts to fulfill all the duties required by the DMP. The Council found that, in general, the State's school districts are providing a full-time principal in schools with over 200 students. Also questionable is whether computing administrative costs on such a minimal level can allow the study to reflect the additional administrative costs of other State educational laws not included in the Defined Minimum Program but nevertheless a part of the mandated minimum program. For example, the Basic Skills Assessment Act stipulates services for pupils unable to perform at certain skill levels and the Education Finance Act itself requires additional reports and data collecting not considered in the cost studies.

The following table depicts the elements included in the 1976 and 1979 studies and the cost per student calculated for each.

TABLE 7
COMPARISON OF 1976 AND 1979 SDE COST STUDIES

Cost Elements	1976 Study		1979 Study	
<u>School Level Costs</u>				
Teachers	26 elementary students to 1 teacher	\$402.90*	26 elementary ADM to 1	\$457.20
Principals Asst. Principals Secretaries Librarians Guidance Counselors Library Aides	Prorated by percentage elementary students are of total enrollment ÷ elementary enrollment		Prorated by percentage elementary ADM is of total ADM and ÷ elementary ADM	
	Southeastern Average Salaries	\$118.43	State Minimum Average Salaries	\$ 84.34
Instructional Supplies	\$7 per student	\$ 7.00	\$7 per student	\$ 7.00
Library Volumes & Audio Visual Materials	None		18 district actual expenditures prorated	\$ 4.91
Support	None		18 district actual expenditures prorated	\$ 4.25
In-service Train.	\$10 per teacher	\$ 0.46	None	
Subtotal School Level Costs Per Pupil		\$528.79		\$557.70
<u>District Level Costs</u>				
1 Superintendent 1 Secretary to Superintendent 1 Asst. Superint. 1 Finance Officer 2 Directors 8 Consultants 8 Secretaries	Total ÷ by weighted pupil units (WPU)		Same method as 1976 study	
	Southeastern and State Minimum Average Salaries	\$ 34.07	None None None None None None	\$ 4.67
Support to Office	25% District Level Salaries	\$ 8.52	25% of Superintendent Salaries	\$.95
Maintenance & Operations	14.01% of total costs	\$ 93.87	18 district actual ÷ WPU	\$105.24
Subtotal District Level Costs Per Pupil		\$136.46		\$110.87
Subtotal (1975-76 dollars)		\$665.25*	(1978-79 dollars)	\$668.57
Inflationary Adjustment		\$ 17.82		-0-
Total (1978-79 dollars)		<u>\$683.07</u>		<u>\$668.57</u>

*1976 per student costs figured with 1976 costs and salary levels.
For comparison, Southeastern Average Teacher Salary 1976 - \$10,496
South Carolina Minimum Average Salary 1979 - \$11,887
(a 13% difference).

Audit Council Cost Study

The cost elements of the Council's study resemble those of the earlier two studies. While the 18 districts of the 1979 study were the basis of this study, actual district expenditures from approximately one-third of the State's districts were used in determining such areas as support costs.

The Council enlarged the number of districts examined for two reasons. First, an analysis of the 18 districts used in the 1979 study showed them to be slightly larger and wealthier than the average for the State. Second, an analysis of expenditures demonstrated that in two cost categories, one district accounted for 25% to 40% of the total expenditures.

The study's application of the educational program elements resembled the "required" and "implied" levels of the 1976 SDE study. In other words, requirements not specifically numbered or listed, but considered necessary to comply with requirements, were included. Unlike the other two studies, no percentage methods were used in computing any costs. Actual district expenditures were used in all areas except personnel costs.

The Council study attempted to take into consideration the problems and questions found in the two earlier studies. In order to do this, the Council examined the staffing and expenditure patterns of about one-third of the districts and calculated the costs with two salary levels, the minimum average and the actual average salaries for the State.

In calculating administrative personnel costs at the school level, the Council, in general, applied the 7-8 grade DMP requirements to all

schools housing grades 4-8 in the sample districts. The effect of applying these requirements was to increase the number of principals, assistant principals, and other support staff to a level which appears to be substantiated by current staffing patterns in the school districts. A review of staffing indicated that the majority of schools housing grades 1-6 met the stricter 7-8 grade staffing requirements.

In calculating the personnel costs at the district level, the Council included the five positions which the review of districts had shown to be representative of State practice. These personnel costs were calculated using minimum and average salaries for the State. For 1978-79, the minimum average salary for teachers was \$11,887, and for elementary principals was \$19,025, while the State's average salary for teachers was \$12,150, and for elementary principals was \$19,536.

The results of the Council study are presented in the following table. The per-pupil costs for each element are shown first as figured with the State's minimum average salaries; and second, with the average.

TABLE 8
COUNCIL COST STUDY
FOR COMPARISON OF ELEMENTS TO SDE STUDIES

Cost Elements	Method	Per Pupil Costs	
		Minimum Salaries	Statewide Average
<u>School Level Costs</u>			
Teachers	26 elementary students to one teacher	\$457.19	\$467.30
Principals Assistant Principals Secretaries Librarians Guidance Counselors Library Aides	Prorated by percentage of elementary ADM (adjusted to include exceptional students served in elementary program) of the total ADM ÷ adjusted elementary ADM	\$ 90.67	\$ 92.35
Instructional Supplies	28 district actual, prorated	\$ 9.47	\$ 9.47
Library Volumes and Audio Visual Materials	30 district actual, prorated	4.86	4.86
Support	28 district actual, prorated	4.02	4.02
In-service Training	excluded	-0-	-0-
Subtotal School Level Costs		\$566.21	\$578.00
<u>District Level Costs</u>			
1 Superintendent 1 Secretary to Superintendent 1 Business Manager 1 Administrator 1 Secretary	Total ÷ WPU	\$ 8.82	\$ 11.50
Support Costs	27 district actual ÷ WPU	\$ 2.62	\$ 2.62
Maintenance & Operations	36 district actual ÷ WPU	\$ 98.94	\$ 98.94
Subtotal District Level Costs		\$110.38	\$113.06
TOTAL (1978-79 Dollars)		<u>\$676.59</u>	<u>\$691.06</u>

In conclusion, the funding provided for education under the Education Finance Act allows the State's school districts to provide the educational program required by the Defined Minimum Program. A review of the cost of meeting the revisions to the DMP, approved during the 1980 Legislative Session, indicates that funds also are available for implementation of the revisions. The Base Student Cost appears to increase as requirements are added to the DMP.

Since the Base Student Cost and the cost of the DMP have become so closely tied, should the Legislature consider mandating further requirements for education or an increase in existing requirements, a fiscal impact study will be needed. Unless additional funding for future legislated requirements is considered, the cost of such requirements may impact on districts' ability to provide the Defined Minimum Program.

RECOMMENDATION

THE LEGISLATURE SHOULD CONSIDER REQUIRING
A STUDY OF THE FISCAL IMPACT WHEN NEW
LEGISLATED STANDARDS FOR THE STATE'S SCHOOL
DISTRICTS ARE CONTEMPLATED.

Inflation Projection

The Education Finance Act provides for the Base Student Cost to be adjusted annually to incorporate the inflation rate. To do so, the Division of Research and Statistics of the Budget and Control Board is required, in Section 59-20-40(1)(b) of the Act, to project the annual rate of inflation. Application of an inflation rate to the original Base Student Cost ensures that the minimum educational program is not eroded because of increasing costs and the resulting lack of funds.

The Audit Council reviewed the Division of Research and Statistic's methodology for projecting the annual inflation rate and while it appears that the economists developed a sound methodology for projecting an inflation rate, some costs were included in the model which are not consistent with the intent of the Education Finance Act. Expenditure items specifically or implicitly excluded from the Act were included in their cost calculations.

Since South Carolina does not officially monitor education or any other prices in the State, and since all educational cost increases are not monitored nationally, the Division had to develop a method for projecting an inflation rate for adjusting the Base Student Cost. The economists devised a two-step process which involved deriving a national inflation rate representative of educational costs and then adjusting this rate to apply to South Carolina. First, the Division staff selected nationwide implicit price deflators for expenditures they felt were most representative of the costs of educational goods and services. Implicit price deflators for State and local government expenditures in the areas of (1) compensation, (2) goods and services, and (3) capital outlay were chosen. In order to reflect the educational costs in South Carolina,

and not in the United States as a whole, a second step was required. The national inflation rates for each category were weighted according to the proportion they represented of county and school district expenditures in South Carolina. It was determined that of total county and school district costs in South Carolina, compensation represents 70%, goods and services 20%, and capital outlay 10% of total expenditures. To illustrate, if the projected national inflation rates from FY 77-78 to FY 78-79 for compensation, goods and services, and capital outlay were 7.5%, 5.2% and 16.0%, respectively, South Carolina's projected inflation rate would be as follows:

<u>Component</u>	<u>National Inflation Rate</u>			<u>Weight</u>	<u>S.C.'s Inflation Rate</u>	
Compensation	7.5%	x		70%	=	5.25%
Goods & Services	5.2%	x		20%	=	1.04%
Capital Outlay	16.0%	x		10%	=	<u>1.60%</u>
South Carolina's Projected EFA Inflation Factor for FY 78-79					=	<u><u>7.89%</u></u>

A problem was noted with the Division's methodology which keeps it from being consistent with the EFA. The model includes a component specifically excluded as a cost consideration in the Act. Capital outlay is a separately funded item. The inclusion of capital outlay could change the inflation factor in the future since the national inflation rate for structures averaged 9% during FY 73-74 through FY 77-78. Also, the inclusion of a 10% weighting for capital outlay in the model affects the weightings for compensation and goods and services.

Further, expenditures which are specifically and implicitly excluded from the Education Finance Act were included in the development of the weights assigned to the expenditure components for South Carolina. For example, pupil transportation, food services, adult education, and employee benefits are specifically excluded from funding under the Act (59-20-20). However, each of these costs were included by the economists in the development of their weighting system. Expenditures for community services, civic activities, public libraries, child care, welfare activities, non-public pupil instruction, and summer school programs were also included in developing the weights for both the compensation and goods and services components. These costs do not relate to providing a minimum foundation program in the public school system. Inclusion of these costs also affects the weighting assigned to each of the components.

The Council reconstructed the weightings for South Carolina educational costs, excluding the costs inconsistent with the EFA. Capital outlay was entirely disallowed from the calculations. It was found, through an examination of school district expenditures for FY 73-74 through FY 77-78, that compensation costs represented 88% and goods and services 12% of school district expenditures. The Audit Council used the same projected national inflation rates as the Division of Research and Statistics used in the first three years of the Act, but applied the revised weightings. Using these revised weights the adjustment to the Base Student Cost would have been 0.19% less than the Division's weights. This adjusted rate would have resulted in a reduction in State funds for the Education Finance Act of \$782,641 for the three years.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD REQUIRE THAT ONLY ALLOWABLE EFA COSTS BE INCLUDED IN PROJECTING THE BASE STUDENT COST INFLATION RATE. THE SDE SHOULD BE REQUIRED TO SUBMIT A FINANCIAL REPORT ANNUALLY TO THE DIVISION OF RESEARCH AND STATISTICS SHOWING HISTORICAL ALLOWABLE EFA COSTS.

Pupil Count Method

The method of counting students for funding needs to be changed in order to allow appropriate implementation and monitoring of the weighted pupil system. According to the Act, the intent of the weighted pupil system is to distribute funds on the basis of student needs and on the basis of the relative costs of the programs needed by different students [59-20-20(c)]. To carry out this system, the law assigns 11 weights to 14 program classifications to provide for the relative costs of the programs. By law, a student is to be counted for funding in only one of the program classifications [50-20-20(1)c]:

<u>Regular Programs</u>	<u>Weightings</u>
1. Kindergarten pupils	1.30
2. Primary pupils (Grades 1 through 3)	1.30
3. Elementary pupils (Grades 4 through 8) (base student)	1.00
4. High School pupils (Grades 9 through 12)	1.25

Special Programs for Exceptional Students

Handicapped

5. Educable mentally handicapped pupils	1.74
6. Learning disabilities pupils	1.74
7. Trainable mentally handicapped pupils	2.04
8. Emotionally handicapped pupils	2.04
9. Orthopedically handicapped pupils	2.04
10. Visually handicapped pupils	2.57
11. Hearing handicapped pupils	2.57
12. Speech handicapped pupils	1.90
13. Homebound pupils	2.10

Vocational Technical Programs*

14. Vocational	1.29
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* Prevocational with a weight of 1.20 has not been used by the districts.

Factors that influence the cost of educating a student are (1) the type(s) of service that must be provided, and (2) the amount of time the service is required. Counting all students in only one classification does not permit an accurate recording of either the services that must be provided or of the time the services are furnished.

Services and service time vary for many reasons. Many students spend an entire day receiving one type of service, but other students because of a career preference or handicapping condition receive more than one type of service. Also, students are not identical in their need for a particular service. The amount of time a program is needed depends on the severity of a handicap or on the particular vocational

program undertaken. Also, school districts are not identical in providing a particular program. The way in which service is given and the amount of time a service is provided can differ.

In order to count for membership in the exceptional programs (except trainable mentally handicapped, speech and homebound categories), students need only to be served in the program five class periods per week, or one out of six or seven class periods per day. For speech qualification the minimum service requirement is one period per week. The Council surveyed 22 districts for the service type and time for exceptional students and found that amounts of service time varied widely. For example, educable mentally handicapped students were served from one period a day to all day, and the learning disabled from one to three periods daily.

In South Carolina approximately 160,000 students are counted in handicapped or vocational programs. This means that the actual services furnished approximately 25 percent of the State's students are not being accurately recorded. If the Education Finance Act is to distribute funds based on the needs of the student and on the relative costs of the programs, it is necessary to know the services a student receives and the amount of time the services are received.

The Council and the Department of Education, in separate studies, reviewed districts' expenditures in the EFA program classifications in attempts to verify relative costs as represented by the weighting ratios. Both groups found that program costs cannot be derived until the percentage of time students spend in the various programs is known. The Council's review of exceptional programs (excluding the trainable mentally handicapped and homebound programs which require full-time

attendance), found that in the sample districts an average of 70% of these students' time was spent in regular programs. There was wide variation in the service time given by districts to exceptional students. The districts' average percentage of time spent in the exceptional programs ranged from a low of 20% to a high of 49% of the total time.

Additionally, the present method of counting students is cumbersome as well as inefficient. Much of the daily routine of record-keeping is repetitive. For example, both teachers and the school attendance officer keep separate records on the daily attendance of each student. Also, records are required to be maintained daily for 135 school days, so that records must be balanced daily for each student enrolled. These procedures are time-consuming and result in inefficient use of staff resources.

The present system allows errors to be accumulated throughout the year if schools do not follow proper balancing techniques. The inaccuracies of the present system are illustrated by the fact that 59% of the districts audited by SDE, for school year 1978-79, showed over-claims in pupil units. The remaining 41% showed under-claims. While district mistakes often balance each other so that the monetary error is less significant, this is not true in every case. For example, in one district over-claimed funds amounted to about \$7,000.

Districts could be encouraged by the present system to identify student needs but underserve them. Eight districts were found by SDE to have claimed "handicapped" students for which no special service was provided. The Council encountered another problem in one district which ended service to speech students before the school year was over. Speech services were not provided to these students from April 15 to June 1.

In order to accurately implement a weighted pupil system, a student should be counted in each classification in which the student receives services. There are two methods of counting which are used in weighted pupil systems, the "add-on" method and the "full-time equivalency" or FTE. The "add-on" method has two sets of weights for each of the exceptional programs, one weight for students served full-time in the program, and another for students served part-time in the program. For example, a handicapped or vocational education student could be served in the regular program and also receive service in an exceptional program for a portion of the school week. In this case the student would receive the weight and funding for the regular program plus the "add-on" weight for the part-time service in the exceptional program.

The full-time equivalency method also uses two sets of weights but the percentage of time the student spends in each program determines the funding given from each weight. For example, a student spending 25 of 30 class periods per week in "primary" and five periods in a program for learning disabilities, would count as .83 ($25 \div 30 = .83$ or 83%) of a student in "primary", and as .17 ($5 \div 30 = .17$ or 17%) of a student in "LD" for funding purposes. Therefore, 83% of the money generated by the primary weight and 17% of the money generated by the "LD" weight would fund that student's total program.

Either method of counting would be more appropriate for a weighted pupil system and would provide a more accurate count than the "one student-one count" method now in use. Either method would provide the Legislature with better information on funding and allow improved oversight. The FTE count allows for the most accurate recording and funding of service. The "add-on" method is easier to implement and less cumbersome to administer.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD CONSIDER THE FOLLOWING ALTERNATIVES IN AMENDING SECTION 59-20-40(1)(c):

(1) EACH STUDENT IN THE STATE SHALL BE COUNTED IN A FULL-TIME EQUIVALENCY MANNER IN THE CLASSIFICATIONS ENUMERATED IN THE ACT FOR WHICH THE STUDENT QUALIFIES AND RECEIVES SERVICE;

OR

(2) EACH STUDENT IN THE STATE SHALL BE COUNTED IN ONE OF THE CLASSIFICATIONS ENUMERATED IN THE ACT FOR WHICH THE STUDENT QUALIFIES AND RECEIVES THE MAJORITY OF SERVICE, AND EACH STUDENT IN THE STATE WHICH QUALIFIES AND RECEIVES SERVICE IN A SECOND CLASSIFICATION SHALL BE COUNTED IN THAT CLASSIFICATION IN AN ADD-ON MANNER.

THE GENERAL ASSEMBLY SHOULD CONSIDER AMENDING SECTION 59-20-40(1) TO STATE THAT:

EACH SCHOOL SHALL MAINTAIN A PROGRAM MEMBERSHIP BY EACH EFA CLASSIFICATION. THE MEMBERSHIP OF EACH SCHOOL IN THE

DISTRICT WILL BE COLLECTED BY PROGRAM CLASSIFICATION EVERY TWO WEEKS DURING THE SCHOOL SESSION, SEPTEMBER THROUGH MAY. A SCHOOL DISTRICT'S MONETARY ENTITLEMENT OF STATE FUNDS SHALL BE MADE BASED ON THE AVERAGE TWENTY-DAY STUDENT DAILY MEMBERSHIP IN EACH CLASSIFICATION. MID-YEAR ADJUSTMENTS IN ENTITLEMENT AND REPORT PROCEDURES TO THE SDE WILL BE DETERMINED BY THE SDE.

Eighty-five Percent Clause

The eighty-five percent clause has not been fully implemented due to a conflict in the law. Section 59-20-50(3) of the Act states:

Eighty-five percent of the funds appropriated through State and local effort for each weighted classification shall be spent in direct and indirect aid in the specific area of the program planned to serve those children who generated the funds.
[Emphasis Added]

This section of the Act restricts the majority, or 85%, of the funds generated by a student to be spent in the one classification in which the student is counted. Its purpose is to ensure accountability for the State funds provided to school districts.

Section 59-20-40(1)(c) states that "Each student shall be counted in only one of the eleven pupil classifications." [Emphasis Added] This requirement does not acknowledge that approximately 25% of the students in South Carolina are served in more than one program. Therefore, to fund the total programs planned for these students, districts need to spend funds in more than the one classification. For example, if the

85% clause was implemented strictly as stated, funding for the majority of the handicapped and vocational programs would exceed the need. The regular programs which serve both the exceptional and regular students would then be inadequately funded.

Since the implementation of the 85% clause does not always ensure that students will receive the educational programs they need, the State Board of Education attempted to ease the problem through two regulations. First, Board regulations stipulate that a student is to be classified and funded in the highest weighted category for which a student qualifies. This is to ensure that there are enough funds to support the different programs that comprise a student's total program.

The second regulation divides the weighted classifications into two categories and applies the 85% restriction in two ways. The classifications in Category I have the 85% standard applied to the total funds the classifications generate. Category II classifications have the standard applied only to the portion of the generated funds above the average base student cost. As depicted in the table, the regulations reduce the funding included under the legislated restrictions.

As a result, the control of expenditures is decreased and the accuracy of the weighted pupil count is reduced. The accuracy of the count is reduced since students are counted in the highest funded classification and not in the classification in which they receive the majority of their service. The pupil count, therefore, is less representative of service need and service time actually required.

The regulations have meant that the 85% clause is not applied to all EFA funding. Therefore, funds have been released from the Legislature's

restrictions and SDE's compliance audit, and are under no program expenditure controls. As can be seen in the following table, the amount of funds released by State Board regulations varies considerably from classification to classification. The Council estimates that State and local EFA funds excluded from the legislative restriction included \$80 million for FY 78-79, and \$91 million for FY 79-80.

TABLE 9

COMPARISON OF CATEGORIES I AND II SHOWING THE EFFECTS OF SDE REGULATIONS
ON THE 85% RESTRICTION

CATEGORY I			CATEGORY II		
Required Expenditure per pupil Student Cost x Program Weight x 85% =			Required Expenditures per pupil Student Cost x (Program Weight minus Base Student Program Weight) x 85% =		
	<u>Funding Generated</u> ^(a)	<u>Required Expenditure</u>		<u>Funding Generated</u> ^(a)	<u>Required Expenditure</u>
1. Kindergarten	\$ 444	\$ 378	1. Educable Mentally Handicapped	\$1,188	\$430
2. Primary	\$ 888	\$ 755	2. Learning Disabilities	\$1,188	\$430
3. Elementary	\$ 683	\$ 581	3. Emotionally Handicapped	\$1,393	\$604
4. High School	\$ 854	\$ 726	4. Orthopedically Handicapped	\$1,393	\$604
5. Trainable Mentally Handicapped	\$1,393	\$1,184	5. Visually Handicapped	\$1,755	\$911
6. Homebound	\$1,434	\$1,219	6. Hearing Handicapped	\$1,755	\$911
7. Speech Handicapped	\$1,298	(b)	7. Vocational	\$ 881	\$168
			8. Pre-Vocational ^(c)	\$ 820	\$116

(a) Computed using the statewide average base student cost for 1978-79 of \$683.

(b) For 1978-79 the General Assembly exempted Speech from the 85% clause.

(c) Not used by districts. Students must be in Ninth Grade before eligible for prevocational program. The High School weight (1.25) is higher and students are classified in that program or in vocational.

The 85% clause as written provides a sound basis for legislative oversight, yet will be workable only if the weighted pupil system accurately records the program classifications in which a student is served. Until all program classifications for each student are recorded, accountability for district expenditures will be difficult to maintain. Other methods, such as a "full-time equivalency" or "add-on" count of students, could provide the needed information on services and enable districts to be more accountable for the expenditure of funds by category. Without changes in the method of counting students the intent of the restriction, that of directing funds to students based on their needs, cannot be assured.

RECOMMENDATION

AS RECOMMENDED EARLIER IN CHAPTER I, IN THE SECTION TITLED "PUPIL COUNT METHOD," SECTION 59-20-40(1)(c) SHOULD BE AMENDED TO MANDATE AN "ADD-ON" OR "FULL-TIME EQUIVALENCY" COUNT OF STUDENTS. IN THIS WAY, THE 85% REQUIREMENT WOULD MORE EFFECTIVELY ENSURE THAT EXPENDITURES ARE MADE IN THE PROGRAMS WHICH SERVE THE STUDENTS WHO GENERATED THE FUNDS.

THE STATE BOARD OF EDUCATION SHOULD BE GIVEN THE AUTHORITY TO REDUCE THE 85% REQUIREMENT IN INSTANCES WHERE DISTRICTS

PROVE THAT THE RESTRICTION PREVENTS THE
PROVISION OF APPROPRIATE PROGRAMS FOR
STUDENT NEEDS.

Weight Study

The Education Finance Act contains a weighting system in the allocation of funds in order to provide for the differences in costs of the various educational programs needed by the State's students. The weights represent the relative costs of the 14 programs funded in the EFA. The Audit Council examined the reasonableness of the weights and found that the exceptional programs are relatively more expensive to provide than the EFA weights indicate.

The following weights are recommended by the Council as representative of the costs of the State's programs:

<u>Pupil Classification</u>	<u>Weights Contained in EFA</u>	<u>Recommended Weights</u>
1. Kindergarten pupils	1.30	1.35
2. Primary pupils (Grades 1 through 3)	1.30	1.20
3. Elementary pupils (Grades 4 through 8) (base student)	1.00	1.00
4. High school pupils (Grades 9 through 12)	1.25	1.20
<u>Special Programs for Exceptional Students</u>		
5. Handicapped	1.74	
a. Educable mentally handicapped pupils		2.10
b. Learning disabilities pupils		2.10
6. Handicapped	2.04	
a. Trainable mentally handicapped pupils		3.40
b. Emotionally handicapped pupils		2.10
c. Orthopedically handicapped pupils		2.75
7. Handicapped	2.57	
a. Visually handicapped pupils		3.80
b. Hearing handicapped pupils		4.40
8. Speech handicapped pupils	1.90	1.35
9. Homebound pupils	2.10	2.90
<u>Vocational Technical Programs</u>		
10. Pre-vocational	1.20	0
11. Vocational	1.29	1.40

The recommended weights are based on three factors: the average expenditures for each program classification for 1978-79 and 1979-80; the patterns of relative costs in the individual districts; and the money available for the Education Finance Act. Twenty-two districts provided the Council with information on the type and amount of services provided students. Only 17 districts, however, could actually be used in the study because five districts' financial records were considered to be unreliable.

Eighty-two percent of the State's handicapped students are also a part of the regular school program and many receive services in a second handicap program as well. A district's average daily membership

(ADM) does not reflect these services to students. The information on student services provided by the 17 districts was important in deriving the program costs for each district. Using the information on services, districts' program expenditures were calculated on a per-ADM cost. This was calculated after the cost of educating handicapped and vocational students in the four regular programs was determined and funds were adjusted in the exceptional programs to reflect the total services to students. The districts' per-ADM expenditures were the average in each of the 14 programs for 1978-79 and 1979-80. Program weights were derived from those average expenditures.

The Council's recommended weights do not follow the expenditure data precisely. The districts' service information and expenditure data was examined and the recommended weights reflect the noted patterns of costs. The Council took into consideration instances in which expenditure data in one program from a district did not follow the cost pattern and affected the average of the program costs. The recommended weights also reflect evidence that the expenditures for kindergarten and vocational education were artificially high due to inaccuracies in collecting data for handicapped services.

Table 10, at the end of this finding, shows the range of expenditures, the average of the costs and each year's weights based on the average costs. The data provided in the table reflect local funds generated above the minimum foundation program and are, therefore, affected by the districts' local wealth.

The Council wished to remove the effects of local wealth while obtaining an indication of the relative costs. To do this, each district's

program expenditures were used to calculate the district's weights. Therefore, it was possible to examine each district's program costs in relation to one another and to other districts' costs. The average weights for the 17 districts for 1978-79 and 1979-80 were:

<u>Program</u>	<u>Average Weight</u>
Kindergarten	1.39
Primary	1.13
Elementary	1.00
High School	1.22
EMH	2.17
LD	2.14
TMH	3.46
EH	2.11
OH	3.09
VH	3.91
HH	4.35
Sp	1.38
HB	3.18
Voc.Ed.	1.52

The Council found that the average expenditure per ADM in three handicapped categories was affected by the inaccuracies of the ADM count despite the efforts of the Council. The costs per-ADM of vision, hearing and orthopedically handicapped programs appear unusually high, but these are not inflated figures. All three of these programs generally serve students counted in other handicapping areas. For example, an ADM of 1.81 with an expenditure per-ADM of \$14,026 actually reflects service to 13 students at a cost of \$1,953 per student.

TABLE 10

RAW DATA FOR WEIGHT STUDY 1978-79 AND 1979-80

Categories	1978-79				1979-80			
	Weight	Average Expenditures	Range		Weight	Average Expenditures	Range	
			Low	High			Low	High
Kindergarten	1.37	\$ 996.43	\$ 732	\$1,208	1.45	\$1,214.15	\$ 843	\$1,629
Primary	1.13	821.73	514	1,259	1.14	953.62	690	1,377
Elementary	1.00	729.30	509	915	1.00	839.27	613	967
High	1.22	888.33	678	1,144	1.19	995.96	742	1,556
EMH	2.11	1,540.74	1,199	2,056	2.13	1,806.04	1,371	2,568
LD	1.91	1,392.76	1,111	2,044	2.10	1,758.76	1,188	2,963
TMH	3.56	2,595.52	1,275	7,484	3.46	2,907.76	1,027	5,415
EH	2.25	1,641.71	1,051	3,060	2.13	1,790.51	1,026	3,289
OH	2.87	2,092.34	659	3,468	3.25	2,731.29	814	7,442
VH	4.15	3,024.77	1,549	5,891	3.88	3,255.19	1,902	5,693
HH	3.74	2,727.50	946	4,571	5.23	4,390.76	2,221	8,897
SP	1.39	1,011.23	614	1,323	1.36	1,143.84	839	1,449
HB	3.21	2,343.84	1,218	4,915	2.91	2,442.68	1,247	6,825
VocEd	1.55	1,127.45	796	1,582	1.44	1,211.84	874	2,230

As a result of the study, the Council concludes that the weights contained in the Act should be adjusted. Should the Legislature consider changing the method of counting students to an "FTE" or "add-on" method as recommended in this report, the Council has begun a study of weights for those counting methods.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD CONSIDER
AMENDING SECTION 59-20-40(1)(c) TO REFLECT
MORE ACCURATELY THE COSTS TO DISTRICTS AS
DETERMINED BY THE LEGISLATIVE AUDIT COUNCIL'S
STUDY AND THE WEIGHT STUDY BEING CONDUCTED
FOR THE STATE BOARD OF EDUCATION.

CHAPTER II
SPECIAL PROVISIONS OF THE ACT

Introduction

This chapter provides an analysis of some special provisions of the Education Finance Act. These requirements and effects of the Act are not direct formula components, yet most impact on the Act's fiscal implementation. The intent of each is either to directly improve the quality of education in State schools, or to permit the implementation of EFA without interrupting current educational programs and funding. EFA also serves to increase allocations of money to school districts, both directly and in the form of incentives to hire teachers with advanced degrees. Analysis of the use of this money is presented in this chapter.

The Legislature expressed its intent that the transition to the new funding formula from the flat grant system used prior to EFA should not decrease funding to a school district. The effects of this "hold harmless" legislation are considered.

Also, the EFA specifies penalties to be assessed against school districts which do not comply with certain requirements of the Act. Penalties already have been levied against seven school districts which did not meet EFA mandates in FY 78-79. The Audit Council studied the districts' ability to comply and the fiscal structure which aides or impedes compliance.

In order for school districts to receive additional funding, the EFA requires that school districts reduce class size in the primary grades one to three. The Audit Council assessed the progress schools have made in this area.

Holdharmless Provisions

Holdharmless was designed to ease the transition to the EFA funding formula by ensuring that State funds to the districts would not fall below their pre-EFA level. There are three holdharmless provisions. The Education Finance Act provides one holdharmless clause which guarantees a per-pupil level of State funding for each district equal to funding the district received the year before the EFA was implemented.

Notwithstanding the computations prescribed in Section 4 of this act, the level of State contributions to each district shall not be reduced to a per-pupil level of foundation program funds below that per-pupil level of State funding of programs for the fiscal year prior to implementation of this act which will be incorporated in the foundation program.
[Section 59-20-50(1)]

Two provisos in the 1978 Appropriation Act amend this clause to ensure that no district will receive less funds than it received in the prior year plus an adjustment for inflation.

Provided, no district shall receive annually an increase in State funds less than the full rate of the inflationary adjustment in the base student cost specified in Section 4(1)(b). This increase shall be computed annually over and above the amount actually received from the State for the foundation program in the prior fiscal year.

Provided, further, after the fiscal year 1982-83 no district shall receive annually an increase in State funds less than four-fifths of Section 4(1)(b). This increase shall be computed annually over and above the amount actually received from the State for the foundation program in the prior fiscal year.

The Council found that the holdharmless provisions may interfere with the functioning of the Act in the future. Under the EFA formula, a district's State fund allotment is dependent on pupil numbers and its index of taxpaying ability. If a district's enrollment drops or if its

property wealth increases, its share of State funds would decrease. By the formula alone, which provides an equitable per-pupil allocation, the district would not be able to generate the same amount of State funds it received in the previous year. In such instances the holdharmless provision comes into operation and overrides the formula of the Act. Since South Carolina's student population is projected to continue to decline through 1984-85, and district property wealth will continue to change, the equity of funding intended by the Act may not be fully achieved.

Because no district can receive less funds than it received the previous year plus an adjustment for inflation, districts under the holdharmless provision can be funded for non-existent students. Most of the eight districts receiving holdharmless for 1979-80 experienced a decline in average daily membership from 1978-79. For example, one of the districts came under the holdharmless provision the second year of the Act because the loss of 127 students reduced its EFA entitlement. In another district, holdharmless funds increased from 17% of the district's State funding to 22% (see Table 11).

TABLE 11

DISTRICTS RECEIVING HOLDHARMLESS FUNDS

<u>District</u>	<u>Change in ADM</u>	<u>Holdharmless Per-Pupil</u>		<u>Percent of State Funding</u>		<u>Percent of</u>	
	<u>1978-79 to 1979-80</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1978-79</u>	<u>1979-80</u>	<u>State Support</u>	<u>1978-79</u> <u>1979-80</u>
A	- 17.74	\$ 0	\$ 17.77	0	3.4	56	47
B	- 39.75	29.46	36.70	5.5	6.4	50	47
C	- 41.03	90.77	126.50	17.3	22.1	40	37
D	- 45.19	.35	3.82	.1	.6	65	64
E	- 1.05	23.78	28.22	4.2	4.7	52	53
F	+ 63.96	4.02	0	.8	0	62	60
G	-127.05	0	1.06	0	.2	59	59
H	-725.11	1.58	6.34	.3	1.0	59	59
I	- 7.93	25.06	9.90	4.9	1.8	49	51

Because holdharmless counters the effects of the index of taxpaying ability, districts will continue to receive more funding from the State than they would receive based on the formula. For example, one district will receive holdharmless funds for the first time in 1980-81, the third year of the Act. This district was receiving 73% of its funds from the State in 1979-80. Due to an increase in local property wealth the district should receive 69% of its funds from the State during 1980-81. Since this would result in the district receiving less State funds than the total State funds received in 1979-80, the holdharmless provision comes into operation and overrides any reduction in State funds. Also, this occurs while the district's student population is declining.

In passing the Education Finance Act, the Legislature declared that three of the purposes were to distribute State funding on the basis of needs, establish a reasonable balance between State and local funding, and require each local school district to contribute its fair share [59-20-30(3)(5)(6)]. Changes in the holdharmless provisions could be made to preserve the intent of the holdharmless provisions, yet promote the implementation of the EFA funding formula. The base for "holding harmless" should be the State funding per-pupil the year prior to the EFA. This amount should be adjusted for inflation and for average daily membership each year.

Many districts may, however, experience declining student enrollments which, under the Council's proposed method would result in a reduction of holdharmless funds in proportion to the reduction in student enrollment. Under the Council's proposal an increase in pupil enrollment could increase holdharmless funds. However, it is more likely

that the formula would generate enough funds to meet pupils' needs and hold harmless would be unnecessary.

To clearly show the calculations involved, the following example uses hypothetical figures.

TABLE 12

HOLDHARMLESS COMPUTATIONS FOR DISTRICT "X," WHICH HAS
AN AVERAGE DAILY MEMBERSHIP OF 10,000

<u>Present Holdharmless Computations</u>	
(1)	FY 77-78 State allotment \$5,000,000 The district is guaranteed this amount adjusted for x 1.079 inflation in FY 78-79 <u>\$5,395,000</u>
(2)	But according to the EFA formula in FY 78-79 District "X" should receive only \$5,200,000 So it receives holdharmless funds of <u>\$ 195,000</u> <u>\$5,395,000</u>
(3)	Its FY 79-80 level \$5,395,000 of funding is guaranteed x 1.079 at <u>\$5,821,205</u> But according to the EFA formula in FY 79-80 District "X" should receive only \$5,400,000 So it receives holdharmless funds of <u>421,205</u> <u>\$5,821,205</u>

<u>Recommended Holdharmless Computations</u>	
(1)	FY 77-78 per-pupil allotment \$ 500.00 Adjusted for 2 years of inflation at 7.9% a year + 81.58 Becomes the FY 79-80 per-pupil entitlement <u>\$ 581.58</u>
(2)	FY 79-80 per-pupil entitlement \$ 581.58 multiplied by ADM x 10,000 Is the FY 79-80 State allocation <u>\$5,815,800</u>
(3)	But according to the EFA formula, in FY 79-80 District "X" should receive only \$5,400,000 So it receives holdharmless funds of <u>415,800</u> <u>\$5,815,800</u>

This computation saves \$5,405 over 2 years.

The Audit Council would also recommend that holdharmless funding be limited to districts which currently receive holdharmless funds. In this way, districts which experienced a drop in State funding because of an increase in local property wealth would not be eligible for holdharmless funds. For those districts already receiving holdharmless funds, an adjustment would have to be made so the same stipulation would apply to them also.

The following table demonstrates the effect the recommended computations would have had on holdharmless allocations for 1980-81:

<u>District</u>	<u>Column 1 Current Calculations*</u>	<u>Column 2 Recommended*</u>	<u>Difference Per-Pupil</u>
A	\$ 478,172	\$386,668	- \$9.81
B	111,484	115,196	+ \$1.50
C	315,324	273,944	- \$18.38
D	125	0	- \$.09
E	41,949	18,249	- \$15.37
F	35,405	0	- \$7.41
G	8,883	0	- \$.87
H	50,460	0	- \$1.65
I	0	14,273	+ \$4.03
	<hr/>	<hr/>	
TOTAL	\$1,041,802	\$808,330	N/A
	Column 1	- Column 2	= \$223,472

*Based on 1979-80 ADM

Generally, the percentage of State funds to each district derived from holdharmless would decline. This method of computation holdharmless funds would provide an orderly transition to the Education Finance Act. The State Department estimates that the amount of funds needed for FY 81-82 will be \$1.8 million. The method of computation recommended by the Council could save the State approximately \$750,000 for FY 81-82.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD CONSIDER AMENDING SECTION 59-20-50(1) SO THAT FOR FY 81-82 THE LEVEL OF STATE CONTRIBUTIONS TO EACH DISTRICT WOULD NOT BE REDUCED BELOW A PER-PUPIL LEVEL OF STATE FUNDING OF PROGRAMS FOR THE FISCAL YEAR PRIOR TO IMPLEMENTATION OF THE ACT. THE PER-PUPIL LEVEL OF FUNDING SHOULD BE ADJUSTED ANNUALLY FOR INFLATION USING THE SAME RATE AS THE BASE STUDENT COST UNTIL AFTER FISCAL YEAR 1982-83. AFTER 1982-83 THE INFLATIONARY ADJUSTMENT SHOULD BE FOUR-FIFTHS OF SECTION 4(1)(b). AFTER 1981-82 NO ADDITIONAL DISTRICTS SHOULD RECEIVE HOLDHARMLESS FUNDS DUE TO DECREASES IN STUDENT NUMBERS OR UPWARD ADJUSTMENTS IN THE INDEX OF TAXPAYING ABILITY.

Fiscal Controls

The fiscal controls placed in the Education Finance Act to ensure its implementation are not always directed at the parties with the authority necessary to assure compliance.

The Education Finance Act states that any school district not meeting required levels of funding

...will have its entitled increase in State aid reduced by the proportion that its actual increase in local effort falls below its required increase of five percent in real dollars, or two and one-half mills, whichever is less. [59-20-40(3)b]

The same type of penalty applies to a district which does not meet the pupil-teacher ratio mandated for grades one through three or does not expend the required 85% of funds in specified program categories:

...the State aid for the ensuing fiscal year to such school district shall be reduced by the percentage variance that the actual pupil-teacher ratios in such school district has to the required pupil-teacher ratios. [59-20-40(5)]

Finally, the Education Finance Act stipulates that any schools

...which have been classified as "dropped" by the defined minimum program accreditation procedures shall not be eligible for funding in the following fiscal year until an acceptable plan to eliminate the deficiencies is submitted and approved by the State Board of Education. [59-20-60(2)]

For FY 78-79, of the 26 school districts audited by the Department of Education, seven did not meet all the EFA requirements and had to return a total of \$131,035 to the State. The penalty on one of the districts amounted to 7% of its funding for the primary category (grades 1 through 3). The penalties assessed districts in FY 80-81 could increase. Thirty-four schools have been placed on probation for non-compliance with accreditation standards and unless deficiencies are removed, their classification could become "dropped" and the full amount of their funding withheld.

The penalties for noncompliance to the Education Finance Act and the Defined Minimum Program are directed at school districts, yet many districts lack the authority to ensure compliance to the law. South Carolina laws do not uniformly assign authority for raising revenues to support local school programs. In only 22 school districts do the boards of trustees have the authority to raise revenues for schools (this includes county boards where the school district covers the entire county). This authority can rest with one of several local governmental entities, such as the County Council, County Board or the Legislative

Delegation. In other districts boards have limited authority, and in some school districts, the boards have full authority to raise revenues for the support of schools.

Meeting the required pupil-teacher ratios, levels of programmatic expenditures, and accreditation standards is not only dependent upon having the authority to raise revenues for schools, but also is dependent upon having the authority to determine how those revenues will be budgeted. Responsibility for budgetary approval is not uniform among districts, since it may belong to District Boards of Trustees, County Boards of Education, County Legislative Delegations, County Boards of Trustees, County Commissioners or County Councils. To penalize school districts for noncompliance to fiscal requirements can mean that action is taken only indirectly against the responsible parties.

While the laws of South Carolina provide a general plan for school district organization and administration, special legislation has created wide variations. School districts are not bound by the Constitutional prohibition preventing special legislation (Article VIII; Section 7, 8, 10), therefore, the variations in fiscal authority seem likely to remain.

Fiscal controls, and the penalties which sometimes result, are placed in the law to ensure accountability. Controls are needed because they reinforce the desire of the Legislature to have laws and resolutions implemented. But, regulation and oversight could become ineffective if school districts are penalized for matters not entirely under their control. Ultimately, it is the students who may suffer when there is a lack of clear responsibility for compliance to the Education Finance Act and the Defined Minimum Program.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD CONSIDER
AUTHORIZING A STUDY OF THE NEED FOR UNI-
FORMITY OF FISCAL AUTHORITY FOR SCHOOL
DISTRICT ADMINISTRATION.

Teacher Incentive

The Education Finance Act provides additional funding to eligible districts for instructional staff with advanced education credentials.

Each district employing instructional staff members with Masters Degrees or higher certification in excess of twenty-five percent of the total instructional staff shall be provided from state funds for each instructional staff member an amount equal to the state portion of the state-local percentage for the foundation program for the school district as provided in this chapter multiplied by two thousand dollars. [59-20-40(2)]

This provision allots extra "incentive" funds to districts when more than 25% of their instructional staff have a Master's Degree or better. Data available for FY 78-79 and FY 79-80 show an increase in the average percentage of instructional staff with advanced degrees. On the average, more than one-fourth of district instructional staff (teachers, librarians, guidance counselors) have a Master's Degree or better.

Also, data available for the three years prior to the implementation of the Act (FY 75-76 to FY 77-78) show that the number of district professional staff, including teachers, with advanced degrees had increased in relation to the total number of staff. Therefore, the average percent of school staff with Master's Degrees or better has been increasing prior to and after the implementation of the EFA.

The Council examined the distribution of teacher incentive funding to the 66 districts which were entitled to receive the funds during FY 78-79. The average allocation per teacher with a Master's Degree or higher was \$364. A 1979 SDE study on the Base Student Cost calculated classroom teachers' salaries at \$11,877. Adding \$364 to that amount, the EFA funding for teachers with higher degrees becomes \$12,241.

It appears that the additional funding would be an incentive to employ staff with higher degrees. The \$12,241 appeared adequate to fund a person with a Master's Degree and eight years experience at the State minimum salary during 1978-79.

Evidence also indicates that when over 35% of the staff in a district has higher degrees, the funding per degree averages approximately twice the funding for districts with less than 35%. For example, 11 districts in FY 79-80 having more than 35% of the instructional staff with higher degrees averaged \$562 per eligible staff from incentive funds. Ten districts, having 25% to 35% of the instructional staff with higher degrees, had an average of \$293 per higher degreed staff.

Additional Funding

In the first two years of the Education Finance Act, education funding increased by \$22 million more than the amount expected under the method of funding education prior to the Act. The Audit Council examined 22 districts' expenditure patterns to determine the use of the new monies generated by the Act. The Council found there were few increases in the number of professional staff, staff salaries or the costs of operation and maintenance for FY 78-79; therefore, it appears that the funds were used in varying ways by the districts. However, the

Council determined that for FY 79-80 increases in the number of classroom teachers absorbed much of the additional funding.

The Council analyzed expenditure increases over a two-year period (FY 78-79 to FY 79-80) for classroom teachers' salaries, other professional staff salaries, and operation and maintenance. In general, these expenditures comprised 67% of district expenditures. Fifteen of the 22 districts exhibited a 15% to 20% increase in State funds for both years and seven school districts had a 10% to 15% increase in State funds. Before the use of additional State funds was examined, the total dollar amount was reduced to reflect the effects of inflation.

The Council used information from the Basic Educational Data System (BEDS) to examine staffing patterns in the school districts. During FY 78-79, there were a few new classroom teachers or other staff hired. Thirteen of the 22 districts had no new classroom teachers and the rest had an average increase of only 2.89 teachers. Statewide, 38% of the school districts experienced a decrease in the number of classroom teachers.

For FY 79-80, the sample districts used an average of 62% of their additional funding to increase the number of classroom teachers. Increases in the numbers of other professional staff remained small.

The Council also examined the total amounts used for salary increases and the percentage increases granted classroom teachers. The average percentage increase in salary for the sample districts was 6.65% in 1978-79 and 8.02% in 1979-80. Only two of the districts in the sample exhibited more substantial increases in salary.

In addition to staff costs, operation and maintenance costs were examined. While some districts did experience increased costs in this

area, no pattern of increases could be detected. The fluctuation in operation and maintenance costs were such that the amount of additional funds absorbed by this area could not be determined.

Variations in Class Size

Section 59-20-40(5) of the EFA mandates a reduction in class size for reading and math in the primary grades (grades 1-3). The pupil-teacher ratio for FY 78-79 was to be 25 to 1 and the ratio for FY 79-80 was to be 24 to 1. Districts are in compliance with the law as long as the overall district pupil-teacher ratio for the primary grades meets the mandated standard. In other words, a district can compute an average of all the primary classes within that district's schools and show an average district pupil-teacher ratio of 24 to 1, while the actual individual class sizes may vary considerably.

By sampling actual class sizes in grades one through three for 1978-79 and 1979-80, the Audit Council found that pupil-teacher ratios did vary considerably even though districts were in compliance with the law. In one district for 1978-79, for example, one school's ratio was 30 students per teacher while another school had an average of 21 students per teacher. Another district had school variations of 27 and 23 students per teacher. Similar variations were evident for 1979-80, with school ratios varying from a high of 27 to 1, to a low of 23 to 1 within one district. In addition, districts' pupil-teacher ratios for the third grade tended to be higher than those for the first and second grades.

During 1980, the General Assembly passed a temporary proviso in the Appropriations Act which limited the enrollment of individual primary classes to 28 pupils. This proviso should help standardize actual class

size even though districts still can compute pupil-teacher ratios on a district-wide basis. However, in order to further ensure the implementation of lowered class ratios and to prevent wide variations in class sizes between schools and the three grades, compliance with the district-wide ratio should be computed separately for each grade.

RECOMMENDATION

SECTION 59-20-40(5) SHOULD BE AMENDED TO REQUIRE THAT EACH DISTRICT ATTAIN A PUPIL-TEACHER RATIO BASED ON A SEPARATE AVERAGE DAILY MEMBERSHIP FOR GRADES ONE, TWO, AND THREE IN THE BASIC SKILLS OF READING AND MATHEMATICS.

CHAPTER III

STATE OVERSIGHT AND IMPLEMENTATION

Introduction

This chapter examines the role and structure of the State Board and State Department of Education in relation to the Education Finance Act. Emphasis is placed on the State's ability to monitor school districts for compliance to the Act and to ensure the availability of an adequate educational program for every student. To this end statewide educational standards and monitoring and evaluation systems were examined closely.

The Audit Council also studied the implementation and effects of that portion of the EFA usually known as "Section Six," which mandates that programmatic and fiscal planning be conducted by school and district boards of trustees. Of primary importance is whether the system established by the Legislature - school advisory councils, annual school reports and annual district reports - is serving to communicate local needs and goals to school district and State administrators.

Background

The State system for oversight of education has its basis in the State Board of Education philosophy which calls for "an annual evaluation of educational quality in each school district in the State." The Board further states that, "to discharge its responsibilities for upholding educational quality and ensuring equal educational opportunity, there must be an accreditation of all ...schools."

In order to be accredited, each school must meet a set of minimum standards which cover all phases of its operation. These standards are

called the Defined Minimum Program (DMP). The Education Finance Act bases State allocations to school districts on the cost of providing the Defined Minimum Program for each student. The DMP standards cover such areas as: number of students allowed per class, minutes to be spent in reading and math, the financial records of the district, the length of a school day, the number of courses offered by a high school.

Responsibility for monitoring school compliance is given to the Office of Accreditation and Administrative Services within the Division of Instruction, one of the three divisions contained in the Education Department. Other offices within the Division of Instruction include Vocational Education, Handicapped Programs, Adult Education, Federal Programs and General Education. Specialists in these offices give technical and developmental aid to school programs and also perform monitoring functions. This chapter concentrates on the Office of Accreditation.

The 15 Accreditation staff members, called "supervisors," perform on-site visits to each State school and district office. Schools must first submit a listing of basic information about their programs, teachers and enrollment, which is computerized at the Education Department. This data collection system is called the "Basic Educational Data System" (BEDS). It provides Accreditation supervisors with an overview of each school and a preliminary list of deficiencies found in meeting the DMP. The BEDS, along with the on-site visit to the school, serve as the basis for determining compliance with State law and for accrediting the school as offering the required minimum program. After this review is made, each school receives an accreditation rating and can qualify for EFA funds.

In addition, the Education Finance Act directs schools and districts to perform a self-evaluation centered upon student needs and prepare an annual written report. School and district compliance to this section of the Act also are monitored during the Accreditation process.

Major Issue: Programmatic Review

Each component of the accreditation system is examined in this chapter to determine if the system provides an adequate assessment of educational quality in South Carolina. Overall, the Audit Council's review finds that accreditation of schools does not provide this assessment. The accreditation process as currently carried out by the Education Department provides only a minimum of oversight. Accreditation is a crucial component of the Education Finance Act, because through it the State Board and Education Department attempt to fulfill the responsibilities assigned them by the Act. Accreditation then may be viewed as the most important service function of the agency.

Section 59-20-60 of the Act outlines new responsibilities for the State Board and State Department as follows:

The State Board shall audit the programmatic and fiscal aspects of this chapter, including the degree to which a school meets all prescribed standards of the defined minimum program...

The State Department of Education shall:

- (a) prepare written appraisal on the reports of the schools with special emphasis on needs, goals, objectives, and plans for the utilization of resources.
- (b) review each district's annual fiscal report, annual and long-range plan, and its evaluation of programmatic effectiveness. On the basis of this review the department shall provide information in a published report to the local school board of trustees,

the Superintendent and other administrative personnel of the district for improvement in the program and in correcting the deficiencies discovered. [Emphasis Added]

Additionally, the Basic Skills Assessment Act states:

The Department of Education shall take necessary administrative action to monitor and evaluate the curriculum and instruction methods in each school to insure compliance with the standards and purposes of this Act (Act 631 of 1978). [Emphasis Added]

These audit mandates, all of which are administered by the Department of Education, also reinforce the State Board's philosophy that calls for an "...evaluation of educational quality...."

The Department has attempted to fulfill its EFA responsibilities by incorporating them into the accreditation process carried out by the Office of Accreditation and Administrative Services. The accreditation system needs certain improvements (outlined in detail on pages 83 through 86 in this report) in order to become an effective oversight mechanism. Briefly, the Audit Council found that: (1) the data system used to provide information for compliance reviews of schools contains inaccuracies and, in some instances is not appropriate; (2) limited amounts of time and manpower are used for on-site reviews of schools, so that most schools receive only a three-hour accreditation visit; (3) the accreditation ratings inaccurately reflect the actual school situation; (4) the Defined Minimum Program, which sets accreditation criteria, provides vaguely worded standards that are difficult to measure and does not extend criteria to measure the effectiveness of school programs; and (5) SDE review of annual school and district reports concentrates on technical language and legal compliance, not report content and quality.

In addition, the Education Department follows a policy of separating the monitoring for legal compliance required of the agency from the

evaluation of effectiveness of school programs. Also, monitoring for compliance to State standards is separated organizationally from monitoring for Federal standards. Other staff, such as curriculum specialists, perform comprehensive evaluations of school programs but only when requested by the school district. The SDE does not have a formal system to ensure that information gained from other evaluations is shared with the accreditation supervisors. Even if a curriculum assessment, for example, found problems in a school, this would not necessarily affect the school's accreditation rating as long as DMP standards were met. Likewise, a poor accreditation rating given to a school would not necessarily lead to a comprehensive evaluation and plan for improvement that could utilize the expertise of many SDE personnel, unless the district requested such assistance.

In discussing the Department's review of school districts and the appraisal required of district plans, the State Superintendent stated that, by law, the local boards of trustees are responsible for the management of the districts' resources. For this reason the accreditation process has been designed to provide only a review of compliance to State regulations, not an evaluation of program quality. The Audit Council agrees that responsibility for managing district resources belongs to the local boards of trustees and district superintendents. However, the State is ultimately responsible for oversight to ensure that districts meet their responsibilities.

In order to help schools improve the quality of the programs they offer, accreditation needs to go beyond a simple compliance review. The Education Department, in fact, has demonstrated that it has the capability to perform effective evaluations. The offices of General

Education and Accreditation have coordinated in-depth evaluations of school district curricula and instructional methods. Even more thorough evaluations have been coordinated by SDE's Office of Technical Assistance and Surveys. These evaluations, called comprehensive surveys or assessments, have covered every aspect of a district's programs, services and administration. The task has involved specialists in curriculum, school services, vocational and handicapped programs, and supervisors in administration and finance. Both the programmatic and comprehensive evaluations provide comments on the strengths and weaknesses of the various district and school programs. Recommendations are made to strengthen and improve the schools' curricula and services.

A review of these assessments and the subsequent recommendations indicates that they are thorough and helpful. Personnel in one of the districts evaluated commented that the study was well-coordinated, comprehensive, and constructive. However, this type of evaluation is performed infrequently by the Department. In the last three years, only four districts have received comprehensive assessments, and only ten more have received in-depth assessments by curriculum specialists.

Currently, the policy of separating the reviews for compliance from the reviews for evaluation, and the current methods used for monitoring compliance, have hampered a coordinated and effective use of staff. Compared to comprehensive evaluations, only a minimum of State review and few in-depth recommendations result from the accreditation review. However, it is the accreditation review (in addition to compliance to the specific fiscal components of the Act) that determines whether a school district receives EFA funding.

Most importantly, continuation of the current practices means that little comprehensive evaluation of the educational programs of the State's school districts will be provided for the districts, the Legislature or other interested parties. While responsibility for giving children an adequate education rests first with the local boards of trustees, the State Department needs to assist the districts whenever the need is recognized. The methods used to achieve this goal also are the districts' prerogative, yet, the appropriateness of the methods should be a matter for State oversight. The Department's policies and procedures need to be changed in order to judge the "quality of worth" of district educational programs, as required by the Education Finance Act and the Basic Skills Assessment Act. Without comprehensive and ongoing evaluations, the Legislature will find it more difficult to determine whether the following purpose of the EFA has been met: "To guarantee...at least minimum educational programs and services... substantially equal to those available to other students..." (59-20-30).

Summary of Recommendations

The accreditation system can no longer adequately fulfill the State Department's responsibilities for monitoring and evaluating school districts. With some reorganization of staff and a change in focus, the State Department could expand the accreditation system to become an ongoing comprehensive assessment. The "model" for this type of assessment is found in the programmatic and/or comprehensive assessments that the SDE currently performs upon request of the districts.

According to the philosophy of the State Board of Education (R 43-1), "...there should be an annual evaluation of educational quality in each

school district... The major resources of the State Department of Education should be concerned with this evaluation process..." The Audit Council recommends that the State Board consider these recommendations in light of the Education Finance Act and the Board's own philosophy. The Council finds that a system of ongoing, comprehensive assessments can be implemented with the present staff in SDE's Division of Instruction.

The purpose of a comprehensive assessment should be to provide district boards and superintendents with an objective view of district strengths and weaknesses. The assessment should provide an integrated, comprehensive evaluation of district performance and plans, resulting in a guide for needed training and program improvement. Schools and districts also should be checked for compliance to the DMP, other State regulations and Federal regulations. The difference between this recommended assessment and previous SDE assessments is that these recommended assessments should be routine and beneficial to all districts in the State. These assessments would serve both to improve school programs and to accredit schools as eligible for State funding.

In order to initiate a comprehensive assessment system, the State Department needs to improve or reorganize its current monitoring capabilities:

- (1) The on-site visits to schools should be performed by a team of SDE personnel consisting of curriculum specialists, accreditation supervisors, Federal program and vocational educational specialists. This would allow for an integrated review of compliance to standards, along with an in-depth assessment of program quality. The Audit

Council estimates that two teams, consisting of approximately 30 specialists each, could perform an on-site review of 31 districts every year, allowing for at least 10 working days for each district. These staff members can be drawn from the Division of Instruction (which has a total of 293 positions) or from other SDE divisions. This would allow every school district to be reviewed once every three to five years. A simple review for compliance to laws may be conducted yearly if necessary.

- (2) The SDE should develop a standard assessment format and use a survey to quickly screen districts for strengths and weaknesses, in order to facilitate the assessments.
- (3) The accreditation ratings should be revised. The purpose of accreditation should be clearly established by the State Board. Ratings should reflect compliance to State and Federal regulations; district progress in meeting its educational goals and objectives; and improvement in student performance. Also, the ratings should be on a scale to indicate the progress a district is making in improving its programs.
- (4) Current DMP standards should be revised to include measures of the success of educational programs and student learning. At the least, the mandates of the Basic Skills Act should be made a part of the DMP. Also, DMP standards should be more clearly defined and put into measurable terms. Improved DMP standards should allow the SDE to better determine if student needs are being met.

- (5) In order to utilize existing staff more efficiently, the SDE should discontinue its annual review of individual school reports. Rather, it should concentrate on appraising district reports to ensure that districts actually are using individual school reports in district planning and needs assessment, as required by SDE regulations. However, the school and district reports could be a component of the comprehensive assessment so that districts and schools can be assessed in light of their own goals. The long-range planning and evaluation emphasized by the Education Finance Act can be reinforced by, and integrated with, a revised accreditation process.
- (6) The Basic Education Data System (BEDS) should continue to supply the Department with information on school programs and DMP compliance. The Education Department should continue to take steps to improve the accuracy of the BEDS.

Basic Educational Data System

The Basic Educational Data System (BEDS) needs to be improved in order to provide accurate information for use in monitoring compliance with the Defined Minimum Program requirements. The Council found two problems which prevent the BEDS from accurately reflecting the conditions in the State's districts and schools. The reliability of the data appears questionable, and the process is inappropriate for monitoring some of the non-quantifiable requirements of the DMP.

The BEDS reports contain two types of information. Each school reports quantifiable data on requirements such as teacher class size, courses offered, teacher certification status, and salary. Another part

of the BEDS, the "Assurances," is a checklist which is used to monitor the non-quantifiable aspects of the DMP. These checklists are a certification by each school principal that certain requirements of the DMP are being met. Such requirements as "principal spends fifty percent of his time improving instruction," "adequate audio-visual aids are supplied," and "there is a well organized staff development plan" are among the assurances to be checked "yes or no" and maintained in the computer for review.

Questions have been raised about the reliability of the data reported. According to school principals and an SDE supervisor, teacher carelessness results in many reporting errors. In addition, BEDS data can be manipulated to reflect conditions which do not exist. Both district and SDE personnel stated that there are principals who complete the BEDS forms with less than actual information in an effort to receive a satisfactory accreditation rating when they have not met the minimum requirements. Further, problems occur when the reported data is computerized.

Once the 40,000 documents (some of which include up to five pages) are received by the Department of Education, problems continue in ensuring the accuracy of the data. The data are put through several edit cycles and returned to the districts for correction. However, the Council's examination of BEDS for 1977-78 and 1978-79 for the sample districts and schools revealed that many deficiencies in meeting the requirements were readily apparent in the data, but were not displayed by the computer in the preliminary printout. Missing data were not reported and data inconsistencies were not noted on the computer printout. In many cases errors, such as student totals on the instructional plan being inconsistent with totals on the profile sheet, teachers

listed on the profile sheet not being listed on the instructional plan, and inconsistent class enrollments, were not detected by the Accreditation staff during their review of BEDS data. However, the State Department has taken steps to improve the accuracy of data.

The second problem is that the Assurances are an inadequate method of monitoring the "non-quantifiable" aspects of the DMP. District personnel feel that it is extremely difficult to monitor compliance with the DMP by use of the Assurances. As the Assurances are worded, there is a wide range of interpretation and definition of the requirements. They are considered by district personnel merely a "check-off of intentions." If an attempt is going to be made to carry out the listed requirements, they are checked off as being in compliance. SDE staff, however, maintains that the Assurances are an effective method of informing district personnel of DMP standards.

The Basic Educational Data System can provide needed information on compliance with the quantitative requirements of the DMP. Before this is possible, steps must be taken to increase the accuracy of the data.

RECOMMENDATIONS

THE STATE BOARD OF EDUCATION SHOULD
DIRECT SDE TO IMPLEMENT A SYSTEMATIC AUDIT
OF BEDS DATA SUBMITTED BY THE DISTRICTS
TO PROVIDE A TEST OF RELIABILITY.

THE SDE SHOULD REVIEW AND IMPROVE THE
INTERNAL COMPUTERIZED CHECKS MADE ON THE
DATA FOR INCONSISTENCIES AND DEFICIENCIES.

THE "ASSURANCES" SHOULD BE DISCONTINUED
AS A PART OF THE BEDS MONITORING SYSTEM.
A REVIEW OF SUCH REQUIREMENTS SHOULD BE
MADE DURING COMPREHENSIVE ON-SITE VISITS.
IF THE DMP IS INADEQUATE TO INFORM PRINCIPALS
OF THE STATE'S REQUIREMENTS, THEN IT
SHOULD BE REVISED.

On-site Visits

The Accreditation system used by the State Department of Education includes on-site visits made to every school. Because of current staff organization and SDE monitoring procedures, these visits are not as useful as they could be. The on-site visits are limited in scope and provide the SDE with little opportunity to perform a comprehensive assessment.

The authority for monitoring compliance with the DMP has been delegated primarily to the Office of Accreditation and Administrative Services. The Office's procedure is to visit each of the State's 1,161 schools at least every other year. Each school is visited by one of the 15 supervisors between the schools' September opening and the April accreditation deadline. These visits, which average approximately three hours, are considered by the supervisors in Accreditation to be the most important part of their monitoring procedure.

Section 59-20-60 of the EFA mandates that the degree to which schools are meeting all prescribed standards of the DMP is to be monitored. As part of this monitoring the on-site visit has several purposes. First, the correctness of the data reported for BEDS purposes is to be

checked; second, the accuracy of the compliance statements made by principals when filling out the Assurances is to be confirmed; and third, Annual School Reports and Staff Development plans are to be reviewed with the principal. In addition to these three objectives, the supervisor attempts to speak with teachers and visit their classrooms. The result is that a review of a school's programs, facilities, and administration is to be conducted in a visit lasting, on the average, about three hours.

As a part of the review of the monitoring process, the Audit Council visited approximately 29 schools and conducted interviews to assess the degree to which compliance with the Assurances can be monitored. These interviews demonstrated that in a three-hour visit it is difficult for one person to confirm the accuracy of the BEDS data or to conduct a meaningful evaluation of compliance with the standards included in the Assurances. While the State Department of Education tries to review entire school programs during on-site visits, it lacks guidelines to ensure that each school is reviewed in a uniform manner. The Audit Council has found indications that, in the past, many recommendations have focused primarily on the condition of the school building and grounds.

The 15 supervisors who conduct the on-site visits have backgrounds primarily in administration. Specialists in the curriculum and various school services, whose area of expertise is programmatic evaluation, are seldom included in the on-site visits. Therefore, the recommendations which result from on-site visits would have to be limited in scope.

RECOMMENDATION

ON-SITE VISITS SHOULD BE CONDUCTED ON A THREE-YEAR TO FIVE-YEAR CYCLE TO ALLOW ENOUGH TIME FOR A MEANINGFUL REVIEW. CURRICULUM AND SCHOOL PROGRAM SPECIALISTS, AS WELL AS ADMINISTRATION AND FEDERAL PROGRAM SPECIALISTS, SHOULD BE INCLUDED IN A REVIEW TEAM.

Accreditation Classification

The purpose of Accreditation classifications is to indicate the extent to which an individual school and the district, as a whole, comply with the State standards prescribed in the Defined Minimum Program. The meanings given in the Defined Minimum Program serve as the sole guide in determining the standards for each classification and the situation each signifies.

All Clear indicates that a district meets the standards prescribed by the State Board of Education for a defined minimum program.

Advised indicates that a district is not meeting all prescribed standards but the deficiencies may be easily corrected and/or substantial progress has been made in removing existing deficiencies.

Warned indicates that a district's educational program is failing to meet one or more of the accreditation standards. Districts that have a Warned accreditation classification are required to make substantial progress toward removal of deficiencies before submitting accreditation will be placed on Probation. In the case of serious deficiencies, districts with Warned classifications that fail to make substantial progress toward removal of the deficiencies may be dropped by action of the State Board of Education.

Probation indicates that serious deficiencies exist and the district will lose its accreditation unless satisfactory progress is made toward the removal of the deficiencies before the next school year.

Dropped indicates that the district's educational program has experienced serious problems in meeting prescribed standards for a defined minimum educational program for one or more school years, or that the program is deficient in meeting accreditation standards to such an extent that it does not merit accreditation. If the accreditation of a high school is Dropped, that school cannot issue State high school diplomas subsequent to the school year in which the accreditation is Dropped. Schools which have been classified as Dropped by the defined minimum program accreditation procedures shall not be eligible for funding in the following fiscal year until an acceptable plan to eliminate the deficiencies is submitted and approved by the State Board of Education. (59-20-60)

A review of the classification system shows it is unsuited for indicating the degree of compliance with State standards and for serving as an indication of the quality of education. The ratings assigned to schools in the Annual Report on Accreditation of School Districts in South Carolina were examined for four school years, 1975-76 through 1978-79. Generally, the severity and number of deficiencies do not determine what rating a school receives. Rather, the length of time a particular deficiency has existed determines the rating. For example, one school received a "warned" for a teacher who was uncertified for the second year in a row. Another school, showing deficiencies for the first time, received the less severe rating of "advised" for "insufficient guidance services, two teachers not properly certified, and more than ten percent of classes taught by improperly certified teachers." Therefore, a "warned" status does not necessarily indicate that a more adverse situation exists than does the "advised" status. This criterion - that the longer a deficiency exists the more severe a rating a school will

receive - does not appear in the written standards or procedures of the Department.

School principals and district superintendents in the sample districts stated that the ratings do not provide a true reflection of the quality of the local educational programs, or of the status of the district or school in meeting all requirements of the DMP. Accreditation personnel voiced another concern that the public and local school boards would assume "all clear" meant that a quality educational program was in place. That may not necessarily be the case. On the other hand, districts which have more than fulfilled minimum requirements and are meeting higher standards also received an "all clear." There is no rating to designate the extent to which districts surpass the minimum.

Under the present system, the use to which a school or district puts its resources is extremely difficult to determine. The classification system appears to imply that all of the State's prescribed standards are absolute ones that a school or district either has or has not achieved. Depending on program, point in time, pupils, and financial ability, the State's districts differ in how they utilize their resources. The system provides little indication of the progress a school or district is making in improving its programs and achieving its educational goals.

The Council's review of accreditation classification systems in other states found three factors which promote the ability of ratings to indicate the status of educational programs. First, the purpose of accreditation needs to be clearly and positively stated, for example:

Accreditation is recognition by the State Board of Education of a continuous systematic process of planning for and evaluating the effects of the school environment upon children and their learning. Such recognition denotes that the school and/or district has developed and is implementing a long-range comprehensive plan which provides for

organization and use of all available resources and for the documentation of continuing improvement in learning by students.

Second, there is a need for recognition that there are various components of accreditation. One system reviewed has three components: (1) compliance to State and Federal laws, (2) progress in meeting the districts' educational goals and objectives, and (3) student improvement in performance. Third, the system should use a scale which indicates the progress a school or district is making in improving educational programs. For example, one state defines three levels of accreditation:

Level I	The school (district) has developed an approved comprehensive educational plan.
Level II	The school (district) is implementing the approved comprehensive educational plan.
Level III	The school (district) has documented significant progress toward the attainment of the priority objectives in its comprehensive educational plan.

By reworking the system in such a manner, the degree of compliance to State laws can be established more clearly. Each school and district can be evaluated in light of local policies and situations while still gaining knowledge of the relative status of its programs in comparison to other district programs. Also, the long-range planning and programmatic review and improvement, which are among the concerns of the Education Finance Act (59-20-60), can be reinforced by and integrated with the accreditation process. Additionally, if such a system is adopted, the Department of Education could more readily coordinate its monitoring responsibilities assigned by Federal laws, the Basic Skills Assessment Act and the Teacher Certification Act.

RECOMMENDATIONS

THE STATE BOARD OF EDUCATION SHOULD UNDERTAKE A COMPLETE REVISION OF THE ACCREDITATION RATING SYSTEM, EMPHASIZING THE PURPOSE OF THE ACCREDITATION PROCESS, AND DEFINING THE SCALE SO AS TO CLARIFY THE MEANING OF THE LEVELS OF ACCOMPLISHMENT, PROGRESS AND COMPLIANCE.

THE DEPARTMENT OF EDUCATION SHOULD DEVELOP WRITTEN POLICIES ON THE PROCESS TO BE FOLLOWED IN DETERMINING PRELIMINARY RATINGS AND ASSIGNING FINAL RATINGS. GUIDELINES FOR SDE STAFF AND SCHOOL AND DISTRICT PERSONNEL SHOULD BE PUBLISHED WHICH FURTHER EXPLAIN THE ACCREDITATION PROCESS, PURPOSE, AND STANDARDS.

Defined Minimum Program

Introduction

The State Board of Education uses the Defined Minimum Program (DMP) to set educational minimum standards for the public schools of the State. The DMP was developed to fulfill the Board's legal responsibility of "insuring a system of public education which provides adequate opportunities to every student." The DMP is used to establish accreditation criteria and serves as a basis for calculating the base student cost. Therefore, the Defined Minimum Program is a crucial component

of South Carolina's educational system relating to both programmatic and fiscal matters.

The Education Finance Act places increased emphasis on educating individual students based on their needs. The Council's review of the DMP indicates that changes need to be made in the DMP if it is to provide a basis for the minimum education program required in Section 59-20-30(1) of the EFA:

To guarantee to each student in the public schools of South Carolina the availability of at least minimum educational programs and services appropriate to his needs.

Certain aspects of the DMP hinder implementation of the individual student approach. First, the State Board has attempted to define the resources necessary for the education process, but has not fully addressed the effective use of those resources in meeting individual students' needs. Second, the DMP contains many non-measurable terms. These aspects of the DMP are discussed in detail in the following paragraphs.

(1) DMP Focuses Upon Resources Rather than Upon the Use of Resources

The DMP standards focus largely upon requiring that certain types and amounts of resources be available. They infrequently address the use of those resources in upgrading the educational process and improving learning. Such broad topics as qualifications of personnel, curriculum description, and administrative organization are components of the standards. Measures of the success of educational programs and of individual skills learned are sparse.

In education, standards may be divided into two categories: procedural standards and performance standards. Procedural standards are input-related and constitute the main criteria by

which the SDE accredits schools and programs. Though included by some states as part of mandatory accreditation criteria, this type of standard does not comprise totally their basic principles and standards. The emerging approach toward greater accountability within the educational system focuses upon the education product or student achievement. Under this concept, the quality of the system can best be measured through an assessment of the progress of the individual student. Each student's progress should be measured against his or her proficiency at the outset of a program. Differences among students and districts are recognized by the targets set. However, progress for all types of students is assigned as a responsibility and a goal. Providing resources is the first step in this process, which is incomplete without also providing for standards or criteria which direct the use of those resources toward producing competent students.

Performance standards are based on outputs and concern for results. They are related to the achievement or competency of the student. Other states, such as North Carolina and Texas, incorporate accountability and student achievement components into their standards. The primary determination of success among school districts in these states is increased student achievement.

South Carolina has a testing program which could enable districts to evaluate educational program weaknesses and better identify student needs. Additionally, the EFA requires annual school and district reports which could become part of a performance-oriented system. Programmatic requirements, such as those included in the Basic Skills Act which focus on individual student needs,

could be incorporated into the DMP. However, as presently designed and implemented, the DMP does not encourage schools and districts to inquire into the status of the academic performance of their students, or to evaluate objectively the programs offered. As a result of these deficiencies in the standards, the DMP does not ensure that individual student needs are met. The standards do not ensure the placement of low achievers in remedial programs, and they define rigid instructional time requirements for elementary and middle school students.

(a) Placement in Remedial Programs

Although standardized test scores in reading and math have shown improvement over the past five years, over 50% of the State's students in grades 3, 6, and 11 continue to score below the national average in these areas. An average of 33% of these students scored in the bottom quartile (below the 25th national percentile) in reading on the Comprehensive Test of Basic Skills (CTBS), administered in the Spring of 1980. Math scores were also below the national norms with an average of 29% scoring in the bottom quartile. The Basic Skills Assessment Act is designed to ensure remedial treatment to students who demonstrate a need. However, the Act will not be fully implemented until 1989. Current State provisions to address remedial problems include only DMP directives which are sparse and not based on uniform placement criteria.

For example, in grades 9-12, remedial math programs are provided only when a large enough group of students (10%)

score three years behind on achievement tests. Using group scores as criteria for special services is inappropriate, because some students may never receive the services they need unless a large enough number of students in the school have math deficiencies. Also, placing students based on achievement test scores is not the acceptable practice in education. Other states' standards contain specific directives that achievement test scores may not be used as the sole criterion for placement.

State directives do not designate placement criteria and therefore may lead to a lack of uniform placement among districts. For students in grades 1-8, the DMP requires that districts must budget \$1.10 each for those students who "evidence lack of readiness for first grade work or remedial programs in reading and math." Also, placement criteria for high school remedial math and reading programs are not outlined in the DMP. Federally funded remedial programs have uniform placement criteria. Such standards for placement eliminate the possibility that students are placed on achievement test scores alone.

(b) Instructional Time Requirements

The DMP defines the amount of instructional time to be spent in each subject area. There is some extra time in the school day to be programmed by the teacher or school. However, the DMP does not ensure that this extra time will be tailored to fit individual student needs. Other states use an assessment of student needs to determine how time can be

used most effectively during the school day. Through the Basic Skills Act, South Carolina provides for the diagnosis of individual pupil competencies and deficiencies which could be used in this manner.

(2) Some DMP Standards Are Vague

The DMP contains some vague and non-measurable language which reduces its effectiveness. The terms "adequate" and "appropriate" relating to materials and resources are used in some instances but no qualification is made as to what constitutes adequacy. In practice, therefore, districts and schools may set their own minimum requirements which may be neither uniform nor regulated on a statewide basis. In addition, the DMP is written in a narrative format that does not clearly delineate each separate standard.

The DMP has been described as a set of "consistent standards for each series of grade levels" and "in a format that should prove to be of assistance to administrators." The terms "minimum" and "defined" indicate that such standards should be as measurable as possible.

Since the standards do not focus the use of resources toward increasing student achievement, much of the language stops short of defining specific measures to be used. For example, the South Carolina DMP states that:

Each school shall have a continuous evaluation program to determine how well it is meeting the needs of the individual pupil. Evaluation is an integral part of planning and developing experiences. Progress or lack of progress should always be appraised in terms of the goals sought.

In contrast, Texas' standards address evaluation as follows:

Goal:

Targeted levels of expected achievements by each program over a school year are established.

Indicators:

- (1) The district designates certain of these student learning objectives as attainments expected for all students who graduate from high school (or who complete the highest grade offered). Also included are other student learning objectives desirable to be attained by some students, but not necessarily by all students, as recognition of the differences among individual students in abilities, interests, and future plans.
- (2) Yearly targets are based upon expected progress by students from their entry-level attainments. Differences among students are recognized by targets set. But significant progress for all types of students is assigned as a responsibility.

Goal:

Using the goals and student learning objectives as criteria, student achievement is assessed periodically and findings are reported. Findings from student assessment are used in shaping the district's program efforts aimed directly at student learning.

Indicators:

- ...(3) Information from a variety of valid instructions and sources is used for assessing student goal attainments.

Note: "Valid instruments and sources" include objective appraisals by qualified observers, tests developed by the district, and standardized achievement tests. The district may also consider the use of perceptions gathered from parents, citizens, employees, students, or other interested parties.

Standards are an essential requirement for both quality control and quality assurance. When standards are vague or ambiguous, attempts at quality control become more difficult.

Conclusion

Overall, the present standards developed by SDE do not fully ensure that the needs of individual students are consistently met.

Since the allocation of State funds depends upon schools maintaining accreditation, the application of measurable standards can improve the potential for all students to be offered equal educational opportunities.

The establishment of minimum standards which provide for adequate opportunities appropriate to the needs of each student is a sound practice and the improvement of the standards should lead to a more effective educational system. Minimum requirements which focus on increased student performance are most important to the concept of educational accountability. Because the present DMP does not focus often enough upon the effective use of resources to meet individual needs, it does not guarantee an adequate basic education program as intended by the Legislature.

The following recommendations are not intended to imply that the allocation of resources to meet individual student needs and to ensure student achievement is best determined at the State level. However, the responsibility to ensure that these two criteria are met is placed jointly with the State and local education agencies. The State Department of Education's regulatory and technical assistance functions will be necessary in order to accomplish this end.

RECOMMENDATIONS

THE STATE BOARD OF EDUCATION SHOULD DIRECT
THAT A TEAM OF EDUCATORS WITH EXPERTISE
IN THE FIELDS OF RESEARCH, ADMINISTRATION
AND CURRICULUM REVIEW (1) ALL CURRENT
AVAILABLE DATA CONCERNING EDUCATIONAL
STANDARDS, (2) STANDARDS USED IN OTHER

STATES, AND (3) INFORMATION ON STUDENT NEEDS IN SOUTH CAROLINA. THIS INFORMATION SHOULD BE USED TO DEVELOP AND/OR IMPROVE STANDARDS TO PROVIDE THOSE WHICH ARE MORE CONSISTENT WITH LEGISLATIVE, STATE BOARD AND LOCAL EDUCATION GOALS. THE STATE BOARD SHOULD ENSURE THAT THE FOLLOWING CRITERIA ARE CONSIDERED IN REVISING THE DEFINED MINIMUM PROGRAM:

- (1) REQUIREMENTS SHOULD FOCUS UPON PERFORMANCE, AS WELL AS DEFINING THE RESOURCES WHICH SHOULD BE AVAILABLE. PERFORMANCE STANDARDS SHOULD ADDRESS THE USE OF RESOURCES IN MEETING INDIVIDUAL STUDENT NEEDS.
- (2) STANDARDS SHOULD INCORPORATE THE INTENT AND DIRECTIVES OF THE BASIC SKILLS ASSESSMENT ACT AND REQUIRE THE ESTABLISHMENT OF A STRUCTURE IN EACH SCHOOL SYSTEM FOR CONTINUALLY MONITORING PERFORMANCE, REPORTING RESULTS, AND TAKING APPROPRIATE REMEDIAL ACTION.
- (3) STANDARDS SHOULD BE EXPRESSED IN TERMS WHICH ARE AS CLEAR AND MEASURABLE AS POSSIBLE.

(4) PROCEDURES FOR DEMONSTRATING COMPLIANCE WITH STANDARDS SHOULD BE AS SIMPLE AS POSSIBLE AND REQUIRE A MINIMUM OF PAPERWORK.

School and District Reports

Introduction

Section 59-20-60 of the Education Finance Act establishes a comprehensive planning and evaluation system. The key components of this system are the school advisory councils, annual school reports and annual district plans as designed by the Act. According to members of the General Assembly and their staff involved in the drafting and passage of the legislation, the intent of the law is to provide a method of linking the community with the school and education process. Implementation of these linkages should promote confidence in public education by allowing those who have an investment in the system to participate in planning, monitoring and evaluation. The annual reports can be viewed as an accountability mechanism which allows the parties involved to see the extent to which the educational system accomplishes its objectives.

The Act also assigns the SDE the job of appraising the reports and providing technical assistance and "feedback" to districts. Thus, it provides for a continuous cycle of communication designed to ensure that the quality of objectives, as well as compliance with the Act, will be assessed, and that communication between the community, schools, local boards and the SDE will result in meeting individual student needs.

The Audit Council finds that this system can be strengthened and made more efficient, as outlined in the following pages.

(1) Advisory Council Role Can Be Improved

The performance of the school advisory councils can be improved with the development of expanded guidelines for their operation and with improved communication between district administrators and councils. The Act requires that a school advisory council be established for every school by the school district board of trustees. The council is to consist of elected parents, teachers and students who must comprise at least a two-thirds majority of the membership. The school principal may appoint up to one-third of the members.

Together, school officials and the advisory council are to prepare an annual report which outlines, at the minimum, programmatic needs, objectives, and strategies. This is submitted to the school district board of trustees and a summary of the report is made available to all parents. A copy of the school report also is submitted to the SDE for a written appraisal.

The Audit Council conducted over 50 interviews with administrative and financial staff and teachers in seven school districts. While the Audit Council's efforts did not focus primarily on evaluating the effectiveness of advisory councils, many comments and suggestions were made in that area. In addition, the role of advisory councils has been examined in more detail in a consultant's report submitted to the Education Finance Review Committee in April 1980. The report surveyed advisory council members, and found that some councils had difficulty understanding the role and function of

advisory councils and had experienced poor leadership. Audit Council interviews indicated that advisory councils had difficulty understanding school programs and budgets. Together, these observations raise the question as to whether the training offered to advisory councils by some districts has been sufficient. The State Department has conducted 18 workshops for the purpose of discussing the reporting procedures required by EFA. However, these workshops have not provided training to advisory councils in the analysis of student and program needs. Currently, the SDE does not require that districts train their advisory councils. State Department staff take the position that, except for specific EFA directives, policy development for advisory councils is a local school board responsibility.

SDE guidelines suggest that the terms of advisory council members be staggered on a two-year cycle. This recommendation appears to promote continuity within advisory councils and should assist in alleviating problems. But the guidelines have not established a uniform record-keeping system which also would facilitate the continuity of report development from year to year as council membership changes. SDE guidelines suggest simply that minutes of meetings be kept. Also, the school report formats do not require an analysis of progress toward previously stated goals and objectives. Therefore, reports may lose value in long-range planning and monitoring.

Another problem concerning guidelines includes the need to specify an annual date by which advisory councils should be constituted and/or begin work each year. Guidelines have not been

developed to address this need, leaving to individual school boards the decision of when to constitute councils.

In addition, the required report formats have been distributed by SDE in an untimely manner. The format for 1979-80 reports was distributed in December, limiting the actual time available for developing school reports to three months since they are due by March 1 to the district board. The State Department has recognized this problem and is trying to distribute report formats by October of the 1980-81 school year.

These problems reduce the time available for a complete review of needs and can inhibit districts' productive use of school reports in planning and budget preparation, which usually begins no later than January.

There appears to be insufficient communication between some boards and their advisory councils. According to the consultant report cited earlier, some councils received little response from school boards about which objectives were acceptable and ready for implementation. Although the EFA requires that district Boards of Trustees write an appraisal of each school report, until this year it did not specifically state that this appraisal be communicated to advisory councils. However, 1980-81 Amendments to the Act require that written appraisals by the school board be received by the school no later than June 30. This should improve communication between advisory councils and school district boards.

RECOMMENDATIONS

A STATEWIDE REVIEW OF ADVISORY COUNCIL
OPERATIONS SHOULD BE MADE TO DISCERN THE

BEST PRACTICES AND IDEAS TO BE USED IN DEVELOPING GUIDELINES. THESE GUIDELINES SHOULD BE MADE AVAILABLE ANNUALLY BY THE DATE ON WHICH THE ADVISORY COUNCILS ARE CONSTITUTED. GUIDELINES SHOULD INCLUDE BUT NOT BE LIMITED TO MATTERS SUCH AS:

- (1) THE ANNUAL DATE BY WHICH A COUNCIL SHOULD BE CONSTITUTED. THE EFA TASK FORCE WITHIN THE SDE HAS RECOMMENDED THAT ADVISORY COUNCILS BE ESTABLISHED BY OCTOBER 1ST OF EACH YEAR. THE AUDIT COUNCIL CONCURS WITH THIS.
- (2) A STAGGERED APPOINTMENT PROCESS PROVIDING TERMS OF AT LEAST TWO YEARS WHICH ENSURES A BALANCE OF REPRESENTATION.
- (3) MINIMUM RECORD-KEEPING PRACTICES SUCH AS A RECORD OF THE DEGREE TO WHICH GOALS AND OBJECTIVES HAVE BEEN ATTAINED AND REASONS FOR DELAYS, AND A RECORD OF TRAINING RECEIVED BY THE ADVISORY COUNCILS.

(4) AN EXPLANATION OF A DISTRICT'S RESPONSIBILITIES RELATED TO ADVISORY COUNCILS SUCH AS THE RESPONSIBILITY FOR THE REVIEW OF ANNUAL SCHOOL REPORTS AND THE RESPONSIBILITY FOR THE TRAINING OF ADVISORY COUNCIL MEMBERS.

(2) Method of Reviewing School Reports Needs to be Changed

The State Department of Education has thus far performed only a superficial review of the annual school reports. Technical language and legal compliance are emphasized, and little time is available to review the quality of objectives and progress in meeting them. As pointed out previously, this situation is due to the fact that responsibility for reviewing the more than 1,161 school reports has been assigned to 15 accreditation supervisors who also have other duties they must perform. The role of the SDE within the cycle of planning and communication established by the EFA needs to be clarified. School advisory councils need the assurance that their work will have an impact on district reports and annual budgets. One way to promote school reports as a part of district budgetary and planning processes is to have district administrators and the local board appraise the reports and use them as input for the district report, as is currently required by SDE.

Assessment of the quality and validity of individual school objectives can best be achieved at the district level where a broader range of information exists concerning the needs of individual schools and the budgetary priorities for meeting those needs. The

State Department of Education, therefore, does not need to read each school report every year, but it does need to ensure that the process established by the EFA is working.

Thus far, the system used by the SDE in reviewing school reports does not provide this assurance. Rather, it unnecessarily duplicates a process which can best be carried out on a district level.

RECOMMENDATIONS

THE SDE SHOULD DISCONTINUE ITS POLICY OF REVIEWING ALL ANNUAL SCHOOL REPORTS EACH YEAR, ALTHOUGH IT SHOULD CONTINUE TO REVIEW DISTRICT REPORTS EACH YEAR.

THE DEPARTMENT'S REVIEW OF THE ANNUAL SCHOOL REPORTS SHOULD BE DESIGNED AS FOLLOWS:

- (1) SDE REVIEW OF ANNUAL SCHOOL REPORTS SHOULD BE MADE A PART OF THE COMPREHENSIVE EVALUATION CONDUCTED ON A THREE-TO-FIVE-YEAR CYCLE. DISTRICTS SHOULD BE HELD RESPONSIBLE FOR MAINTAINING THE ANNUAL SCHOOL REPORTS AND RELATED RECORDS WHICH DOCUMENT THE USE OF SCHOOL REPORTS IN DISTRICT BUDGETING AND PLANNING.

(2) BOTH SCHOOL AND DISTRICT REPORTS CAN BE A COMPONENT OF THE COMPREHENSIVE ASSESSMENTS SO THAT PROGRESS MADE BY SCHOOLS AND DISTRICTS IN MEETING THEIR OWN GOALS FOR STUDENT ACHIEVEMENT COULD BE EVALUATED.

(3) Inadequate Utilization of District Reports

The State Department of Education and the State Board have yet to fully incorporate the annual district reports into statewide planning and budgetary procedures. Thus far, the Department lacks a system whereby the content of the reports - district goals and needs - can be reflected in statewide goals. Like the school reports, SDE staff review district reports only to ensure that they comply with the required format. Interviews with members of the State Board of Education show that the Board has yet to officially develop any policies on how district reports can be used to provide input from the district level to Board decisions.

As outlined previously, the Education Finance Act attempts to create a continuous cycle of communication between local, district and State levels aimed at identifying and correcting deficiencies in the educational system. The process originates at the local level when the school advisory councils participate in establishing each school's needs and goals. School reports are consolidated on the district level and provide input into district-wide planning, budgeting and assessments of community needs. This same activity should exist on a State level, for if district and school reports are to be

valid documents and not just additional paperwork, they ultimately must be expressed in statewide goals and fiscal priorities.

However, the method used so far to deal with district reports keeps the reports isolated in the Office of Accreditation and Educational Improvement within the SDE. Other than Accreditation staff, few people within the SDE read the district reports. The State Board, as well as management and planning personnel within the SDE, rely on other sources for local input.

As a result, the last link in this cycle of communication is not fully completed. As long as the district reports are used only within the Accreditation Office, their potential as a tool for planning educational improvement is lost. Instead of effectively using the district reports as part of a planning and evaluation mechanism, the State Department reviews them simply to verify district compliance to the report requirements of the EFA.

Furthermore, school districts (and ultimately the public) lack assurance that their goals have been incorporated into statewide goals or even that the same goals are being pursued by all. While school and district goals tend to be specific, and State goals broad, there needs to be a consensus of priorities and a common direction. However, until the State Department is able to coordinate district reports with its other activities in the areas of needs assessment, planning and evaluation, this will be difficult to achieve.

RECOMMENDATION

THE SDE SHOULD APPOINT A STAFF MEMBER OR
STAFF UNIT TO BE RESPONSIBLE FOR COMPILING

DISTRICT REPORTS AND EXTRACTING GENERAL NEEDS AND OTHER INFORMATION OF STATEWIDE IMPORTANCE. DISTRICT REPORTS SHOULD BE USED FOR LOCAL INPUT INTO THE STATE BOARD OF EDUCATION'S FIVE-YEAR PLAN, THE ANNUAL BUDGET OF THE STATE DEPARTMENT OF EDUCATION AND ANY OTHER ACTIVITIES CONCERNING PLANNING, NEEDS ASSESSMENT OR EVALUATION.

State Board Of Education Staffing

During its review of the Education Finance Act the Audit Council conducted a series of interviews with each member of the State Board of Education. In addition, the role of the Board and the intent of its authority were examined. Results of this review indicate that the Board needs a limited research and staff capability to fully implement the powers entrusted to it by law. Section 59-5-60 details these powers as the ability to adopt educational policies, rules and regulations... to annually approve budget requests... and to adopt minimum standards for any phase of education as are considered necessary to aid in providing adequate educational opportunities and facilities.

In a self-study developed by the Board recently, the Board said that it should "assume an initiative in meeting the needs of public education," and "as the educational needs change and the demand upon the resources of our State grow, so will the role of the State Board of Education."

While two-thirds of the Board explicitly stated that they do not feel the need for independent staff for the Board, most Board members

admitted having difficulty in understanding one of the following: (1) the information provided by the State Department of Education prior to Board meetings, (2) the budget document annually presented by the Superintendent for Board approval, or (3) the details of the Education Finance Act. Board members agreed that they must deal with a tremendous volume of information pertaining to education.

The EFA also has assigned new tasks for the Board. It has been given responsibility for approving formulas developed by the State Department to determine local and State funding levels - a complex task. Waiving pupil-teacher requirements is another important EFA responsibility of the Board.

The question of Board dependence on State Department of Education staff presented an additional issue for consideration during the interviews. Although most Board members feel that SDE staff freely cooperates with the Board, such a dependence may serve to obscure the distinction between the roles of the State Department of Education and State Board of Education. As a result, a question is raised of whether the Board is fully capable of exercising the oversight function which Section 59-5-60 implies.

The Board's capability could be substantially enhanced by providing it with an independent research staff, to consist of up to three positions:

	FY 80-81 Estimated <u>Salary</u>
(1) Programmatic analyst - to review programmatic information provided by the State Department and provide summaries to Board members, and to supply detailed information to individual Board members in the areas of educational evaluation and monitoring.	\$23,260
(2) Fiscal analyst - to review the financial and budgetary areas of State Department activity and provide periodical reports to the Board in these areas, as well as to research requests on the part of individual Board members relating to financial or budgetary matters.	20,552
(3) Clerical or secretarial - to handle the Board's correspondence and provide clerical assistance to the two analysts.	10,972
Subtotal	<u>\$54,784</u>
(4) Estimated Fringe Benefits	<u>8,660</u>
TOTAL STAFF ESTIMATE	<u><u>\$63,444</u></u>

RECOMMENDATION

THE COUNCIL RECOMMENDS THAT THE STATE BOARD OF EDUCATION STRONGLY CONSIDER THE ADVANTAGES OF HAVING AN INDEPENDENT STAFF CAPABILITY, IN ORDER TO MORE EFFECTIVELY EXERCISE THOSE POWERS PROVIDED BY SECTION 59-5-60. THE COST OF SUCH STAFF SHOULD BE TAKEN FROM EXISTING EDUCATION FUNDS WITHIN THE STATE DEPARTMENT OF EDUCATION. A MINIMUM OF ONE STAFF MEMBER WITH BOTH

FISCAL AND PROGRAMMATIC CAPABILITIES SHOULD
BE ASSIGNED TO THE BOARD.

State Board of Education Appointments

Appointments to the State Board of Education have not been made in a timely manner. Eleven of the current 17 Board members did not begin their terms on time because Legislative Delegations did not appoint them on the four-year rotation schedule established by the legislation. One member is still on the Board past the end of his term because a new member has not been appointed.

Section 59-5-10 provides that Legislative Delegations will elect one person from each judicial district to serve on the State Board of Education, and that the Governor will appoint one member. Each Board member shall serve a term of four years, "until their successors are elected and qualify." The terms are to be rotated among each county within the judicial district so that each county has a chance to be represented for four years. However, because the law allows members to stay on the Board until a successor is chosen, late appointments have extended the terms of previous Board members from a few months to as much as two years. Consequently, if 11 of the current Board members end their terms on the proper cycle, they will have served less than four years. This can result in unequal representation of counties on the Board.

Recently, the State Board has taken steps to bring terms back on schedule. However, according to an Attorney General's opinion issued December 1979, no office or agency within the State of South Carolina has the specific responsibility to inform Legislative Delegations of the

approaching end of a four-year term of a State Board of Education member. Legislative consideration may be needed to ensure that future appointments to the Board are made on time.

CHAPTER IV

DISTRICT LEVEL MANAGEMENT

Introduction

This chapter presents a broad overview of the impact of school district financial practices upon successful implementation of the EFA. The ability of school districts to ensure the proper expenditure of funds is important to the effectiveness of the Act. For this purpose the Audit Council examined fiscal accounting practices on the district level. This review was made because accountability can be assured only if adequate systems for managing and reporting financial data are in place. Also, compliance with some provisions of the EFA, such as the "85% clause," necessitates new budgetary and expenditure controls by districts.

The Audit Council examined fiscal practices in 23 schools within seven districts in the State, and also utilized 26 school audits conducted by the SDE. In addition, the ability of districts to increase their share of education funding, as required in 59-20-40(3)(b) of the Act is necessary for continued progress toward full funding of the Defined Minimum Program. Local effort is examined to see if, in real dollars, districts have made the required fiscal commitment to education.

Major observations drawn from this review are detailed below.

District Financial Data

In order for the Legislature and the State Department of Education (SDE) to make policy decisions regarding educational program funding, certain financial information is required from school districts. On August 15 districts are directed to submit financial data to the SDE in

the Annual Superintendent's Report (ASR). An annual Certified Public Accountant's (CPA) audit is due December 1. To ensure that data from different districts is comparable, districts are required by the Defined Minimum Program to maintain accurate accounting records of all financial transactions in a format prescribed by the SDE.

The Annual Superintendent's Report is the State prescribed financial summary of district operations. The data provided by these documents serves several purposes. It allows the SDE to maintain a fiscal account of educational operations throughout the State and the information is used to determine Federal funding the State will receive. Additionally, the data serves as a research tool and is used to calculate preliminary compliance with Education Finance Act fiscal requirements. The annual CPA audit serves two purposes. The audits assure district fiscal integrity and serve as a verification of the fund balances which have been reported in the Annual Superintendent's Report.

Annual Superintendent's Report

The Audit Council found that the financial information submitted by the districts to the State is inaccurate and untimely. Both the State Department of Education and the Council found numerous instances in which districts had not maintained accurate records and had not followed State prescribed accounting requirements. Audits of 22 districts for first-year compliance to the Education Finance Act revealed four problem areas. The districts had commingled State and Federal funds; incorrectly recorded instructional expenditures; recorded some expenditures twice; and improperly reported the number of teachers funded under the EFA.

First, more than half (55%) of the audited districts commingled State and Federal funds. Vocational, CETA, and ROTC Federal funds were combined with the State General Funds, resulting in inaccurate records of both State and Federally funded program costs. Second, instructional expenditures were incorrectly recorded by all but two of the districts. Districts did not track the costs for each special education program but allocated the costs for teachers instructing multiple types of special education students to only one program. The districts also did not record the full costs for a particular educational program. Third, in a majority of the districts, State revenue and expenditure accounts were incorrectly used. Expenditures were recorded twice in some instances. Finally, a majority of the districts incorrectly reported the number of teachers, which altered the support costs attributable to specific educational programs.

Not only were the Annual Superintendent's Reports found to be inaccurate in many instances, but they also were sent to the SDE in an untimely manner. For example, only three districts met the reporting date for school year 1979-80. When the Council inquired ten days past the deadline, only half of the reports had been received by the SDE. The districts were also late with the CPA audits. Sixty-five percent of the audits for the 1978-79 school year were not received at SDE by December 1. In fact, some districts were notified two times before they complied with report requirements.

District financial management problems appear to be the major reason for inaccurate and untimely records. The Department of Education has a Financial Accounting Handbook which can provide a sound guide for setting up and maintaining accurate accounting records. The

accounting procedures outlined in this handbook are only recommendations, however, and many districts do not follow these guidelines. Currently, there are no State policies concerning minimum qualifications for district financial personnel.

The Department of Education has been hesitant to penalize districts for not keeping accurate records and reporting deadlines. Only when districts do not comply with fiscal requirements of the Finance Act does the SDE take action against school districts. Rather than impose penalties for the lack of accurate financial reporting by the districts, the Department considered consolidating the Annual Superintendent's Reports and the CPA audits for financial information. The question is raised as to whether relieving the districts of this financial reporting responsibility would cause an improvement in their financial management, and therefore, cause greater fiscal accountability.

Because of the lack of accuracy and timeliness in district financial information, it must be questioned whether a number of school districts have fulfilled their responsibilities. Acceptable accounting procedures and the need to know the cost of State prescribed educational programs, dictate that districts accurately and fully record instructional costs. Taxpayers should be guaranteed that the State educational appropriations have been expended appropriately and effectively. Inaccurate and untimely financial data could jeopardize the Federal funding available for educational purposes.

CPA Audits

The SDE has not prescribed a format for the CPA audits which would ensure that pertinent information is reported to potential users.

Also, it has not prepared an audit guide to aid in the preparation of the audits. While some audits do report on EFA expenditure categories, of the sample reviewed by the Council over one-third of the audits did not. Among those audits reporting EFA expenditure categories there is inconsistency in formats both year-to-year as well as between CPA firms.

Currently, only SDE audits, performed by the Office of Finance, report information concerning expenditures and compliance with EFA mandates. These audits, however, are performed on a two-to-three-year cycle and cannot provide annual information.

The State Board of Education in the Defined Minimum Program requires that:

An annual audit of all financial records shall be made by a certified or a licensed public accountant selected by the district, and a copy of the audit in the format prescribed by the SDE shall be filed...

Governmental Accounting Office (GAO) standards for audits of governmental organizations and programs require that consideration be given to the needs of potential users of the results of an audit. This is stated as follows:

This standard places on officials who authorize and prescribe the scope of governmental audits the responsibility for providing for audit work that is broad enough to fulfill the needs of all potential users of the results of such audits.

This lack of guidelines means that reports often do not present information concerning compliance to EFA mandates, and therefore, are not as useful as they could be. They are not easily cross-checked with the data contained in the Annual Superintendent's Report. A revised format for CPA audits would increase the usefulness of both financial reports. The development of an audit guide for district CPA audits

would strengthen the fiscal accountability of the school districts and disclose relevant EFA information.

RECOMMENDATIONS

THE STATE BOARD OF EDUCATION SHOULD CLARIFY THE AUTHORITY OF THE DEPARTMENT OF EDUCATION TO PENALIZE DISTRICTS FOR NONCOMPLIANCE TO STATE FINANCIAL REPORTING REQUIREMENTS.

THE STATE DEPARTMENT OF EDUCATION'S FINANCIAL ACCOUNTING HANDBOOK SHOULD BECOME THE REQUIRED ACCOUNTING MANUAL FOR SCHOOL DISTRICTS.

DISTRICT FINANCIAL PERSONNEL SHOULD BE REQUIRED TO ATTEND AN SDE PROVIDED TRAINING SEMINAR(S) WHEN DEFICIENCIES ARE DOCUMENTED IN ACCOUNTING PROCEDURES OR IN FINANCIAL COMPLIANCE.

STATE FUNDS SHOULD BE WITHHELD FROM DISTRICTS WHICH DO NOT COMPLY WITH FINANCIAL REQUIREMENTS UNTIL WRITTEN PLANS FOR CORRECTING THE DEFICIENCIES ARE APPROVED BY THE AUDITING AND FIELD SERVICES SECTION OF THE DEPARTMENT AND EVIDENCE OF THEIR IMPLEMENTATION IS PRESENT.

THE SDE SHOULD PRESCRIBE AN AUDIT FORMAT FOR CPA REPORTS THAT MEETS REPORT REQUIREMENTS OF THE EFA AND IS BROAD ENOUGH TO FULFILL THE NEEDS OF POTENTIAL USERS.

Financial Accounting Handbook

Overall, the SDE Financial Accounting Handbook adequately provides for the accounting needs of the Education Finance Act. Some minor revisions are needed before adopting the system prescribed by the Handbook. Four areas in the guide appear to be confusing to district financial managers and often result in the inconsistent treatment of identical fiscal data. The recording of costs for the speech and hearing handicapped, supervision of special projects category, staff development and teacher aide areas has been a problem.

- (1) There are three cost categories in the guide for recording speech and hearing handicapped expenditures: two for direct costs and one for indirect costs. However, no explanation is given in the Financial Accounting Handbook to distinguish which cost category is appropriate for a particular financial transaction. During first year audits for compliance to the Education Finance Act, both the Audit Council and the State Department of Education noted instances of inconsistent treatment of this information. District personnel also indicated confusion in understanding which cost category was appropriate.
- (2) The indirect cost category entitled, "supervision of special projects," is designed to incorporate the costs for the overall supervision,

coordination and direction of special programs. The State Department of Education includes these costs in the determination of district compliance with EFA fiscal requirements. Instances were found where some districts included unallowable Finance Act expenditures in this category. For example, Adult Education costs, not allowed under EFA, have been included. Also, the category does not distinguish between costs which are applicable to one, versus many programs.

- (3) Staff development costs have been inconsistently recorded by district personnel. In most instances, the costs were recorded as "travel" expenditures in the department in which the employee worked. This does not allow district-wide staff development costs to be monitored. The new (FY 80-81) DMP requirement of \$10.00 per staff person for training necessitates an accurate and easy record of district staff development expenditures. If the State is to monitor the training provided school employees, the Department of Education needs to reduce the recording of staff development costs to one category and require districts to comply with the change.
- (4) Although the guide provides salary codes for employees working on a regular, temporary, and/or overtime basis, there is no established code for teachers' aides' salaries. If the State desires the standardization of financial transactions, then a uniform code for teachers' aides should be developed.

District Compliance with 85% Clause

School districts are required to expend 85% of the State and local dollars generated by their EFA pupil memberships in the categories in which the revenues were generated [Section 5, 59-20-50(3)]. Of 26 school districts audited by the State Department of Education for FY 78-79, seven districts were found to be in violation of the 85% requirement of the Act.

The audits, conducted by the Auditing and Field Services Section revealed that these seven districts lacked a total of \$166,065 needed to meet the required minimum expenditures. Of this amount, the State portion of the funding (\$131,035) must be returned to the State General Fund. The table on the following page shows that four of the seven districts did not meet the "Primary" program expenditure requirements, one by as much as 9% of the total. Underexpenditures of 1% and 100% were noted in the other three districts' "Learning Disability," "Orthopedically Handicapped," and "Visually Handicapped" programs.

The Council reviewed the Department's audits to determine the causes of the underexpenditures. Neither the districts' pupil counts nor the adjustments to expenditures based on the State Department audit were found to cause the noncompliance. Also, districts were apparently well informed as to the audit standards they must meet. Projected audit standards are sent twice during the budgetary process and actual standards, based on the district's 45-day and 135-day average daily membership, are given to the districts by the Department. For these reasons, and from the observations made of district fiscal planning and management, the most likely causes of noncompliance to the EFA requirements were apparently district problems with budgetary planning and internal financial management.

TABLE 13

DISTRICTS NOT IN COMPLIANCE WITH THE 85% EXPENDITURE REQUIREMENTS
FOR FISCAL YEAR 1978-1979*

<u>District</u>	<u>Program</u>	<u>Required Expenditures</u>	<u>Column I Amount Underexpended</u>	<u>Percent Underexpended</u>	<u>Column II (%) State Share of Funding</u>	<u>Amount to be Returned to the State (I x II)</u>
A	Primary	\$1,062,460	\$ 64,362	6%	78	\$ 50,202
B	Primary	1,152,690	59,497	5%	80	47,598
C	Primary	429,976	39,330	9%	79	31,071
D	Primary	670,371	2,369	.4%	76	1,800
E	Learning Disability	16,878	228	1%	78	178
F	Orthopedically Handicapped	252	252	100%	66	166
G	Visually Handicapped	2,368	27	1%	74	20
TOTALS		\$3,334,995	\$166,065			\$131,035

*A total of 26 districts had been audited at the time of this study.

One of the purposes of the Education Finance Act is to guarantee a minimum educational program for all of the State's public school students [59-20-30(a)]. Therefore, the law requires that 85% of the funds generated by the students in a particular category be spent in that category. When districts do not meet the standard in one category, yet far surpass the standards in other categories, a question is raised as to whether the minimum program was provided to some of the districts' students. For instance, four of the districts did not meet the "Primary" program standard, yet had expenditures averaging 200% above the standard for the "High School" program. The following table illustrates that the seven districts cited for being below the expenditure standard in one program, exceeded the standards in various other programs or categories. Therefore, funds apparently could have been expended to meet the minimum expenditure standard in all the programs.

<u>Program/Category</u>	<u>Seven Districts' Average Percentage Audit Standard Exceeded</u>
Kindergarten	37%
Elementary	36%
High School	197%*
Trainable Mentally Handicapped	70%**
Homebound	175%

*One district not included because audit standard exceeded by 781%.

**Only six of the seven districts provided this program, however, each of the four exceeded the standard.

The lack of compliance with program expenditure requirements in these districts further indicates a need for improved financial management practices in the districts.

RECOMMENDATIONS

EACH SCHOOL DISTRICT SHOULD REVIEW ITS FINANCIAL MANAGEMENT AND INTERNAL CONTROLS TO ASSURE FUTURE COMPLIANCE WITH THE 85% EXPENDITURE REQUIREMENT AS MANDATED BY THE GENERAL ASSEMBLY.

THE STATE DEPARTMENT OF EDUCATION SHOULD CONTINUE TO EXPAND THE TECHNICAL ASSISTANCE AVAILABLE TO SCHOOL DISTRICT PERSONNEL ESPECIALLY IN THE AREA OF FINANCIAL PLANNING WHERE PROBLEMS HAVE OCCURRED.

District Compliance with Local Effort

Introduction

The Council analyzed the two aspects of the local share of funding, or local effort, required of school districts by the Education Finance Act. First, the progress of districts toward full implementation was examined for indications of compliance by FY 82-83, the year of the Act's complete implementation. Second, the compliance of districts with the phase-in of local effort each year was reviewed.

The Act states that:

It is the intent of this Act that the full implementation of the foundation program from present funding level in present financing plans, in terms of real

dollars, be achieved in substantially equal annual intervals over a period of five years...
[Section 59-20-40(3)(b)]

However, the EFA provides districts with three other ways to annually phase-in the required local effort. A district may calculate its required local support by (1) increasing its prior year millage rate by 2.5 mills, or (2) increasing its prior year local revenue by 5% in real dollars, or (3) using its combined State and local revenue that exceeds the amount needed to fully fund the minimum foundation program. Should a district not comply with any of the methods allowed by the Act, State aid is to be reduced to that district by the same percentage that it fails to comply.

Meeting the Act's Mandate by FY 82-83

Eighty-seven percent of the State's districts will have fully met the required local effort by FY 82-83 if current funding patterns continue. Half, or 46, of the districts in the State have already met their projected local effort requirements of the Act with their FY 79-80 local revenues. Thirty-four of the remaining 46 districts are phasing-in their required local effort and it appears that they will have no problems in meeting the requirement by FY 82-83.

To determine if the State's school districts would meet the required local effort set forth in the Act, the Council projected each district's FY 82-83 required local support. In projecting the FY 82-83 local support, the district's FY 79-80 average daily membership and the index of taxpaying ability were held constant, while the Base Student Cost was inflated to estimated FY 82-83 dollars. The projections of required support were compared to the district's average increases in local revenue for the past three years, FY 77-78, 78-79, and 79-80.

The Council concludes that given current funding patterns, only 12 of the State's 92 districts may not comply within the five-year phase-in period of the Act. The table that follows estimates those 12 districts' needed percentage increases in local revenue compared to the actual average increase. Four districts need less than a 10% increase each year to fully meet their local share by 1983, while three districts would have to increase local revenue by over 20% a year. However, for the majority of the State's school districts, it appears that the five-year phase-in intended by the Act, will be met.

TABLE 14
AVERAGE PERCENTAGE INCREASE IN DISTRICT REVENUES:
NEEDED AND ACTUAL

<u>Districts</u>	<u>Average Local Revenue Percentage Increases Per Year</u>	
	<u>Needed to Meet Act</u> <u>(FY 80-81 to 82-83)</u>	<u>Actual</u> <u>(FY 77-78 to 79-80)</u>
A	3.60%	.27%
B	4.67%	.50%
C	10.18%	9.05%
D	11.60%	8.75%
E	7.36%	3.55%
F	9.15%	2.80%
G	21.54%	8.78%
H	28.41%	24.79%
I	20.00%	11.62%
J	13.71%	3.12%
K	14.87%	12.87%
L	17.75%	12.48%

Current Local Effort Conditions

The Council examined 43 districts for their annual phase-in of required local support for FY 78-79 and FY 79-80. Except for one district who could not meet its local effort in FY 78-79, all of the districts in the Council's survey complied with the Act in both years of implementation. The one district that did not meet its required local effort fell short by \$3,114 through an accounting error found by the Department of Education in its audit.

Currently, there is no statewide monitoring of the districts' phase-in of local effort. Only when a district is audited by the Department of Education is compliance to the phase-in analyzed. The Council analyzed the methods used by the 43 districts in satisfying the required local effort using the formulas outlined in the Department's audit manual. The analysis showed that 34 districts exceeded their required local support. Eight districts used alternative methods to phase-in their required local support. Five districts satisfied the required effort of the Act by increasing their millage rate by 2.5 mills, while one district increased its required local support by 5% in real dollars. Two districts complied with the Act by using their State and local revenues in exceeding the amount required at full implementation stated in Section 59-20-40(6).

During the Council's analysis, two potential problems were found in implementing required local effort. As discussed earlier, the analysis indicates that districts can apparently implement their foundation programs within the Act's five-year phase-in period ending in FY 82-83. A district which increases its required local effort annually by at least 5% in real dollars is allowed to extend the phase-in period for full implementation by an additional five years. However, the law is unclear as to

whether this same extension can be applied by districts which increase their millage rate by 2.5 mills or use their combined State and local revenues to exceed the base student cost of the minimum foundation program at full implementation. If these alternative methods are to comply with the initial intent of the Act, a phase-in extension should also be placed on the 2.5 millage increase and the combined State and local revenue clauses.

A second problem in implementation concerns the local effort alternative in Section 59-20-40(6).

No district shall be required to increase local revenue if combined State and local revenue exceeds the amount necessary to meet the base student cost of the minimum foundation program at full implementation.
[Section 59-20-40(6)]

The term "State revenue" has been interpreted to include teacher incentive and holdharmless monies as well as the foundation program allotment. Therefore, districts which receive any amount of holdharmless and teacher incentive funds, could use these monies instead of local funds to meet their required local support. This interpretation appears to conflict with the intent of the Education Finance Act to have a balance between State and local funds [Section 59-20-30(5)]. Such an interpretation could mean that districts could avoid paying their fair share of education costs under the Act.

RECOMMENDATIONS

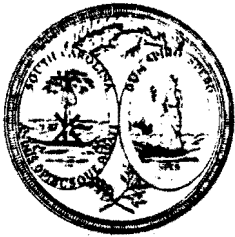
THE GENERAL ASSEMBLY SHOULD CONSIDER
AMENDING SECTION 59-20-40(3) AND (6) TO
CLARIFY THE DATE OF FULL IMPLEMENTATION OF
THE REQUIRED LOCAL EFFORT OF THE STATE'S
SCHOOL DISTRICTS.

THE GENERAL ASSEMBLY SHOULD AMEND SECTION 59-20-40(6) TO CLARIFY THE MEANING OF "COMBINED STATE AND LOCAL REVENUE" OF THE DISTRICTS WHICH CAN BE USED IN MEETING THEIR REQUIRED LOCAL EFFORT.

THE STATE DEPARTMENT OF EDUCATION SHOULD ANNUALLY MONITOR ALL DISTRICTS' ANNUAL PHASE-IN OF REQUIRED LOCAL EFFORT.

APPENDICES

APPENDIX A



Charlie G. Williams
State Superintendent of Education

STATE OF SOUTH CAROLINA

DEPARTMENT OF EDUCATION

COLUMBIA 29201

November 14, 1980

TO: Mr. George L. Schroeder, Director
South Carolina Legislative Audit Council

FROM: Charlie G. Williams, State Superintendent of Education

SUBJECT: Response To The Legislative Audit Council Report On
The Education Finance Act

The Department of Education commends the staff of the Legislative Audit Council for their serious efforts in auditing the first year implementation of the South Carolina Education Finance Act of 1977. Although the staff was handicapped by the complexity of the Law and their lack of a thorough knowledge of the subtleties of the many varied aspects of the Law, the audit report contains suggestions worthy of consideration by the Department of Education and the State Board of Education.

There are two general themes underlying the conclusions and recommendations of the report.

The overriding theme seems to use the Finance Act provisions as a basis for recommending the relationship of the Department of Education to the local school districts to be almost exclusively regulatory and oversight. Historically, the Department of Education's relationship has been a balance of (1) regulatory (2) consultant-technical assistance and (3) leadership functions.

Recognizing the unique authority of local school boards, administrators, and teachers as a major component in South Carolina's system of public education, the relationship of leadership and assistance, coupled with the regulatory function, we believe will continue to show substantial progress. Obviously, the Audit Council feels a stronger oversight-regulatory function, coupled with a reduction in the leadership and technical assistance function, will result in greater progress for our children. The Department of Education questions the premise of this overriding assumption.

Legislative Audit Council Comment - The Council's recommendation for regularly scheduled comprehensive assessments, if properly implemented, should enable the State Department of Education to provide increased, high quality technical assistance to the school districts. Page 84 of the report states:

The purpose of a comprehensive assessment should be to provide district boards and superintendents with an objective view of district strengths and weaknesses.

Legislative Audit Council Comment (Continued)

The assessment should provide an integrated, comprehensive evaluation of district performance and plans, resulting in a guide for needed training and program improvement.

The State Board of Education states in its philosophy that:

Evaluation of Education - To carry out the statutory mandate, the Board believes that there should be an annual evaluation of educational quality in each school district in the State. The fundamental purpose of such an evaluation is to determine educational shortcomings, as the first step in developing improvements. The Board believes the major resources of the State Department of Education should be concerned with this evaluation process, and with the resulting aid to local school districts who most need improvement in achieving it. The basic yearly objectives and work plans of the Department should be structured upon the findings secured from the evaluation process.

Secondly, the report doesn't acknowledge the complexity of implementing this comprehensive Law. That the Law is complex and contains ambiguous subtleties is evidenced by the fact that its intent is still open to debate and different interpretations. The report of the Legislative Audit Council, however, presents the legislative intent as being clear and precise. Undue license is taken in the report in indicating, unequivocally, that the intent of the Act is the redirection of the State Board of Education and the

Department of Education into a strictly regulatory role; to wit:

The General Assembly may wish to reconsider the role of the State Board of Education and the State Department of Education in light of the Finance Act, in order to ensure that local school districts are meeting the individual needs of students.

Legislative Audit Council Comment - The Council agrees with Dr. Williams that this passage could be misleading. The Council, therefore, has made the following change to make its position clear:

The General Assembly may wish to clarify the role of the State Board and the State Department in light of the Finance Act, as it relates to ensuring that local school districts are meeting the individual needs of students.

The initial rejection of additional Defined Minimum Program standards by the Legislature last session and the amendments to the Finance Act designating 50 percent of the new funds generated by the Act to be used to meet needs as determined by the local school districts doesn't support the interpretation of more State control of local programs. This assumption appears to be a rather liberal interpretation by the Audit Council staff.

Decisions regarding assignment, evaluation, instruction, discipline, etc., of individual students have been left basically to the local educators in South Carolina. States that have attempted to control individual programs have found this difficult, if not impossible, to do at the state level. State government generally has not deemed it feasible to intervene in individual student matters, excepting, of course, intervention as an appeal process.

The Department of Education questions the thesis of this theme that State Government will know what's best for individual students. The concept needs serious review before action is taken to further weaken the role of local school boards, administration and teachers. In the desire to accelerate improvement in the system of educating approximately 630,000 students daily in the public schools of South Carolina, state leadership should examine critically the concept of stronger centralized control versus the partnership of state and local decision-makers.

Legislative Audit Council Comment - A paragraph has been added on page 8, based on the following three quotes from this report, which further explains the Council's position.

Page 8 of the report states:

One of the expressed purposes of the Education Finance Act is to... "ensure that tax dollars spent in public schools are utilized effectively and to ensure that adequate programs serve all children of the State."

Page 81 of the report states:

The Audit Council agrees that responsibility for managing district resources belongs to the local boards of trustees and district superintendents. However, the State is ultimately responsible for oversight to ensure that districts meet their responsibilities.

Page 83 of the report states:

While responsibility for giving children an adequate education rests first with the local boards of trustees, the State Department needs to ensure that the districts are doing their job. The methods used to achieve this goal also are the districts' prerogative, yet, the appropriateness of the methods should be a matter for State oversight.

Responses to specific items in the Legislative Audit Council's report include:

CHAPTER I

- A. Weight Study
- B. Pupil Count Method
- C. 85 Percent Clause

CHAPTER II

No response. One item --
Variation in Class Size -- is
included under response in
Chapter III.

CHAPTER III

- A. Variations in Class Size
- B. Programmatic Review
- C. Defined Minimum Program
- D. School and District Reports
Process
- E. Advisory Council Role
- F. Recommendations Pertaining to
the State Board of Education

CHAPTER IV

- A. Financial Management of Districts
- B. C.P.A. Reports

CHAPTER I

Findings presented in Chapter I of the Council's report, for the most part include recommended changes to the Education Finance Act legislation as passed by the General Assembly. The State Department of Education takes exception to the general direction that the Council is taking in three of these areas. Changes in the pupil weighting system, pupil classification system, or the 85 percent expenditure clause will impact on the other two areas. The recommendations presented by the Audit Council in these areas will place an additional limit on the amount of control which is available to the local board of trustees in planning programs. The State Department of Education does not subscribe to this type of control. Specific exceptions to these recommendations are detailed below.

A. Weight Study. The information contained in this section of the report is similar to findings in a study conducted by the Department during Fiscal Year 1979. Both studies indicate a need to adjust the current weights. We concur with the Audit Council that the current study being conducted by the South Carolina Education Finance Act Task Force, which is co-chaired by Mr. Nick Theodore and Mr. F. E. DuBose, should review the Council's recommendations as they examine the feasibility of recommending changes in the weighting system.

It should be noted that the studies conducted of the weighting system have illustrated that the weights needed for funding a particular program will vary considerably from one district to another. There are many variables which determine the financial need for a program in a local district which cannot be controlled. These variables include the number of students to be served and the type of program required. This fact must be recognized when determining a standard for the expenditure of funds by program. Currently these variable needs of districts are accommodated by the application of the 85% clause.

B. Pupil Count Method. The Legislative Audit Council report includes two recommendations relative to accounting for pupils, (1) the method of classifying pupils by program and (2) the method of collecting pupil information. The first recommendation is to change the method of classifying pupils by program areas by using a "full-time equivalent" or add-on program classification system. This recommended new system would depend heavily on an exactness in the weighting system that does not exist. The weights at best represent the statewide average cost differential for a particular program. Therefore, it is not logical to assume that the weights will be representative of the cost for a portion of a pupil's instructional program. This type of "fine tuning" of the funding system should be in the hands of the local budget planners.

The current method of collecting pupil program membership information is interfaced with the daily attendance system. This allows districts to collect the needed program membership on a daily basis on the same system used to maintain attendance records for each pupil. Districts will be required to continue collecting attendance records on a daily basis regardless of the method used for collecting program membership. Therefore, the recommendation by the Legislative Audit Council to collect program membership information every two weeks at each school will require two separate systems for maintaining pupil records. Not only will the Council recommendation create a duplicate system, it will be less responsive to changes in pupil program membership. The proposed system could have up to a two week lag before changes are denoted while the present system records changes daily.

The State Department of Education recommends that the current system for classifying pupils under the Education Finance Act be maintained. The current system recognized that weights are statewide averages and provides the districts with some local discretion in the allocation of funds by program.

Legislative Audit Council Comment - Page 45 of the report states:

Counting all students in only one classification does not permit an accurate recording of either the services that must be provided or of the time the services are furnished.

Page 46 of the report states:

The Council and the Department of Education, in separate studies, reviewed districts' expenditures in the EFA program classifications in attempts to verify relative costs as represented by the weighting ratios. Both groups found that program costs cannot be derived until the percentage of time students spend in the various programs is known.

Page 48 of the report states:

In order to accurately implement a weighted pupil system, a student should be counted in each classification in which the student receives services.

C. Eighty-Five Percent Clause. The Audit Council reports that problems are created by the 85 percent clause because pupils spend time in more than one program. It further states that the State Board of Education addressed the problem by adopting regulations which released some \$85 million from the audit standard with no further accountability required. This statement illustrates the fact that the Council has viewed this provision in isolation of other provisions in the Act and misinterpreted the intent of this provision which was designed to provide programmatic flexibility.

Section 59-20-40 (3) of the Act states in part that:

Eighty-five percent of the funds appropriated through State and local effort for each weighted classification shall be spent in direct and indirect aid in the specific area of the program planned to serve those children who generated the funds.

This provision, in light of the requirement to classify a pupil in only one category, allows flexibility at the local level in directing the expenditures of funds between programs when the program planned for a pupil involves more than one program category. The Audit Council apparently recognizes this need for flexibility by recommending a proviso which would allow the State Board of Education to waive an audit standard for a district based on a justification presented by the district. However, the department maintains that having a predetermined standard as presently required by the 85% clause allows needed flexibility at the local level and is more desirable than having an after the fact justification for each standard.

The State Department of Education feels that the existing regulations are appropriate and comply with the intent of the law, and should not be changed at this time.

CHAPTER III

A. Variations in Class Size. The Legislative Audit Council recommends that Section 59-20-40 (5) of the Education Finance Act be amended to require each district to attain a pupil-teacher ratio based on separate average daily membership for grades one, two and three in the basic skills of reading and mathematics. This recommendation was based on data which revealed considerable variation in individual class sizes within a school district.

The Legislative Audit Council recommendation infers that the limitation of class size by grade would correct the problem of variations in individual class sizes within a district. The problem can only be resolved by limiting individual class sizes within a school and providing sources for the construction of the required additional facilities.

B. Programmatic Review. The Legislative Audit Council contends that the State Department of Education has not sufficiently reorganized its staff to carry out the audit and program appraisal mandates of the Education Finance Act and the Basic Skills Assessment Act. The Council further suggested that the present State Department of Education policy of separating onsite monitoring for compliance from onsite reviews for

evaluation does not guarantee the degree of State oversight intended by these laws and hampers a coordinated use of staff. The Legislative Audit Council has stated that the new audit mandates of the Education Finance Act and the Basic Skills Assessment Act have the effect of changing the role of the agency from primarily providing support and assistance to school districts to a more stringent regulatory function.

The Legislative Audit Council recommends that the State Department of Education combine compliance reviews and programmatic evaluations into a single, comprehensive assessment for each school. This approach would include monitoring of schools once every three to five years by a team of SDE personnel consisting of curriculum specialists, accreditation supervisors, Federal Program and vocational education specialists. The Audit Council contends that onsite reviews of 31 school districts could be conducted yearly by sixty members of the Division of Instruction.

While the recommendations of the Legislative Audit Council is one approach to monitoring evaluation, the State Department of Education feels that it has already implemented a better approach to carry out these functions. The State Department of Education has recently reorganized the Division of Instruction to include an Office of Accreditation and Administrative Services and a Basic Skills Section within the Office of General Education. The purpose of the Basic Skills Section is to monitor the implementation of the Basic Skills Assessment Act and to provide technical assistance to schools in diagnosing performance, reporting results, and providing the required remedial services. A review of the State Department of Education's comprehensive staff management plan for the Division of Instruction reveals how the staff is effectively coordinated.

The present regulatory role of the State Department of Education has not been recognized by the Legislative Audit Council. In 1979-80, a significant portion of the resources of the State Department of Education's Division of Instruction was expended toward fulfillment of the agency's regulatory responsibilities. In addition to the comprehensive assessments cited in the Legislative Audit Council report, the State Department of Education's Division of Instruction conducted the following number of onsite evaluations during Fiscal Year 1980 for the purpose of fulfilling regulatory and compliance functions: Office of General Education (869), Office of Federal Programs (160), Office of Programs for the Handicapped (33), Office of Adult Education (105), and Office of Vocational Education (102). Recognizing the advantages of the comprehensive assessment approach, the State Department of Education has conducted comprehensive evaluations of school districts for the purpose of programmatic analysis and improvement.

The Legislative Audit Council states that the Division of Instruction has 293 staff positions. The actual number of authorized positions is 285 of which 105 are clerical and office support personnel. The LAC estimates that 60 specialists could conduct onsite reviews of 31 school districts each year. The contention that these program specialists are available from current staff resources is not documented in the report. The recommendation that federal program specialists and other federally funded positions be included on review teams is inappropriate since the utilization of these personnel is limited by Federal regulations.

Legislative Audit Council Comment - The organization chart on page 10 of the report was verified by the State Superintendent of Education on October 29, 1980.

The State Department of Education has included Federal program specialists on teams performing comprehensive evaluations in the past. A review of the coordination of Federal and State programs is a permissible and appropriate part of a comprehensive review of district programs.

To effect the comprehensive regulatory and compliance assessments recommended by the Legislative Audit Council would divert resources and manpower away from Agency functions that must be conducted annually. Such a redirection of resources would severely reduce the support, technical assistance, and leadership services presently provided to local schools by the State Department of Education. The State Department of Education will examine the desirability and feasibility for conducting additional comprehensive assessments for program evaluation and improvement.

C. Defined Minimum Program. The Legislative Audit Council recommends that the current standards for accrediting public schools be revised to reflect a performance-based system for monitoring the quality of a school's educational program. The Legislative Audit Council recommended that the revised system: (1) monitor the use of resources in meeting individual students' needs; (2) include an accreditation procedure based primarily on the extent to which a school program increases student achievement; and (3) incorporate the directives of the Basic Skills Assessment Act.

An individual-school accreditation system based on student performance is a very complex process and fails to take into consideration many motivational and situational variables that impact on student achievement. Socio-economic background, for example, cannot be directed or controlled by local school officials. An accountability-based accreditation system was implemented in Florida, but discontinued by legislative mandate in 1975 after it had been in operation for three years. One of the greatest difficulties in implementing a performance-based system of monitoring school programs is that such a program requires massive recordkeeping devices that consume an excessive amount of instructional time.

A review of the development of the current accreditation system might be helpful. The State Board of Education, in 1948, adopted the first standards for accrediting public high schools. The standards became effective with the 1948-49 school year -- the first year that every public high school had a twelve-year program. A high school had to receive State accreditation to qualify to issue a State High School Diploma.

Accreditation standards for elementary schools were first adopted in South Carolina in 1960. The accreditation standards were not mandatory in that a school district had the option to seek or not seek accreditation for its elementary schools.

The Defined Minimum Program was adopted by the State Board of Education in 1973 and implemented statewide in 1975. This was the first time that comprehensive standards were prescribed for the district board of trustees, district operations, elementary and middle grades, secondary grades, summer

programs, area vocational centers and adult education. If a school district's educational program is evaluated as failing to comply with prescribed standards, it is considered as offering a program that is deficient in meeting local educational needs, and such failure is indicated in the status of the accreditation classification.

Legislative Audit Council Comment - Page 97 of the report states:

The emerging approach toward greater accountability within the educational system focuses upon the education product or student achievement. Under this concept, the quality of the system can best be measured through an assessment of the progress of the individual student. Each student's progress should be measured against his or her proficiency at the outset of a program. Differences among students and districts are recognized by the targets set. However, progress for all types of students is assigned as a responsibility and a goal.

The accreditation standards for South Carolina public schools have been determined on the basis of research and the recommendations of representative groups of South Carolina educators. The intent of the State Board of Education is to provide for the continual study of the schools -- their needs, their problems and their achievements -- and for the revision of standards as observation and study may dictate.

The Defined Minimum Program standards are under constant study by a thirty-six member advisory committee composed of school administrators, teachers, librarians, guidance counselors, and school board members. Recommendations from the advisory committee for revisions of accreditation standards are reviewed, modified, and recommended for approval by the State Department of Education staff to the State Board of Education and the General Assembly.

Accreditation standards prescribed by the State Board of Education for school districts represent formal statements of the minimum acceptable quality and quantity for various phases of the educational program. The Defined Minimum Program provides a basic foundation for quality education through careful planning and design.

The State Board of Education and the State Department of Education believe that standards of accreditation should be sufficiently comprehensive and provide enough flexibility to stimulate each school toward the achievement of its purpose. Standards should be designed to open avenues for improving educational opportunities by placing students in situations where they can learn more effectively, work more comfortably, and achieve optimum success. The accreditation of a school should be based upon the school's composite program and the resources, facilities, and staff required to accomplish this program. The accreditation system for public education should not be considered ultimate goals for achievement, but a basic foundation for ensuring at least a defined minimum program in each local school district.

Although the report of the Legislative Audit Council stated otherwise (p. 102), the Council's recommendations relative to revisions in the current State Standards for public schools implies that the allocation of resources to meet individual student needs and to ensure student achievement is best determined at the State level. The State Department of Education recognizes the desirability of the exercise of local initiative in planning and operating school programs.

Legislative Audit Council Comment - Page 95 of the report states:

The DMP is used to establish accreditation criteria and serves as a basis for calculating the base student cost. Therefore, the Defined Minimum Program is a crucial component of South Carolina's educational system relating to both programmatic and fiscal matters.

Page 102 of the report states:

The following recommendations are not intended to imply that the allocation of resources to meet individual student needs and to ensure student achievement is best determined at the State level. However, the responsibility to ensure that these two criteria are met is placed jointly with the State and local education agencies. The State Department of Education's regulatory and technical assistance functions will be necessary in order to accomplish this end.

The Legislative Audit Council cited the accreditation systems of North Carolina and Texas as model programs for South Carolina to study. The State Department of Education will review the accreditation systems of these two states and other Legislative Audit Council recommendations as to their feasibility for consideration and adoption in South Carolina.

D. School and District Reports Process. The Legislative Audit Council report contends that the State Department of Education has failed to adequately utilize the data generated by the annual school reports process. The Legislative Audit Council recommended that the State Department of Education extract information from district reports for the purpose of identifying general needs and other information of statewide importance to be used as local input into the State Board of Education's Five Year Plan, the annual budget of the State Department of Education, and any other activities concerning planning, needs assessment, and evaluation. This recommendation is based upon the assumption by the Legislative Audit Council that the purpose of the annual school reports process -- advisory councils, annual school reports, and annual district reports -- is to communicate local needs and goals to the state level to be used for needs assessment, planning and allocation of resources.

The State Department of Education questions this recommendation for the following reasons:

1. The purpose of the 1,155 individual school reports is to foster participation by parents, students, teachers, and the general public in the local educational planning process.

2. The State Department of Education is currently studying the feasibility of incorporating the data from the annual district and staff development reports into the statewide needs assessment and planning process.

E. Advisory Council Role. The Legislative Audit Council recommends that the State Department of Education conduct a statewide review of advisory council operations for the purpose of discerning the best practices and ideas to be used in developing guidelines. This recommendation was based on findings by the Legislative Audit Council that there was considerable variation among school districts in the training provided to advisory councils.

The State Department of Education agrees that appropriate guidelines can facilitate the orientation, training, and constructive use of advisory councils. To assist local school districts in the establishment and operation of effective advisory councils, the State Department of Education has developed and disseminated the following publications in 1978.

1. "Suggestions for Principals as They Work With Advisory Councils"
2. "Guidelines for Local Boards of Trustees in Establishing School Advisory Councils"

F. Recommendations Pertaining to the State Board of Education. Chapter III, Sections 7 and 8 of the Legislative Audit Council's report were reviewed and discussed in detail by representatives of the State Board of Education and State Department of Education. This review committee does not support the recommendation that the State Board of Education pursue the employment of independent staff for the following reasons:

- (1) South Carolina has a unique system of an appointed seventeen member State Board of Education required by State statute to carry out certain responsibilities and duties and an elected State Superintendent of Education who is the chief administrative officer of the public education system and also serves as the secretary and administrative officer for the State Board of Education. The State Superintendent organizes, staffs, and administers a State Department of Education to carry out the policies of the State Board of Education and duties of the agency. This system requires an interdependency and close working relationships which does not support the concept of independent State Board of Education staff.

- (2) There is insufficient evidence in the report to support separate staff. Currently the State Department of Education is providing positive and professional staff assistance, and additional resources, data and information are available from other educational groups and governmental researchers to assist the board in decision making.

The State Board of Education supports the timely appointment of new members in accord with Section 59-5-10 of the Code of Laws of South Carolina. The rotation cycle prescribed in this section, if followed, provides for an orderly replacement of members while allowing a sufficient number of experienced members to remain in order to conduct the State's business in an efficient and systematic manner. Recently the General Assembly has attended to the appointment process in a timely manner as evidenced by the fact that currently only one State Board member is serving off cycle.

CHAPTER IV

Chapter IV relates to the financial management system of the local school districts with recommendations for improving this system. The statements of the Audit Council in this Chapter do not consider the vast changes in the financial management system created by the Education Finance Act. Prior to the implementation of the Education Finance Act, fiscal accountability was strictly a matter for the local Board of Trustees. The Finance Act provides a number of fiscal accountability measures for local districts and the district responses to the changes have been positive.

We question the advisability of the recommendation requiring an audit format for CPA reports that meets the requirements of the Education Finance Act. The audits being conducted are under the guidelines of the American Institute of Certified Accountants and attest to the fair presentation of the district's financial position. If the Department places additional requirements on the CPA's, the scope of their audits would have to be expanded. This expansion would greatly increase the time and cost of the audit because the report will attest to more than the district's financial position.

This increase in cost must be viewed in relationship to the benefits to be derived. The districts are making great strides in the area of fiscal accountability. The minor differences between the districts' program accounting records and audits of those records are constantly decreasing. In addition, the State Department of Education requires the independent accountant to submit a report to the Department on any material difference between his audit report and the Superintendent's Annual Report which is in a format consistent with the compliance areas of the Education Finance Act.

The State Department of Education and school district administrators are committed to improving the district level financial management system. However, prior to making changes in the scope of the audit, careful study and review by district officials, members of the CPA Association and Department audit staff should be conducted to determine potential benefits as well as costs to school districts.

SUMMARY

The State Department of Education, due to limitations of space and time, has not attempted to respond to all conclusions and recommendations included in the Legislative Audit Council's report. The fact that there is not a response to all items does not imply concurrence or disagreement.

All conclusions and recommendations in this report will receive detailed study and deliberation and will be utilized, as appropriate, to strengthen South Carolina's system of public education.

The State Department of Education concurs with the report summary which states that "although several obstacles exist, the overall conclusion of this report is that the Education Finance Act is working."

APPENDIX B

SUMMARY OF FORMULAS CONTAINED IN EFA AS APPLIED

BY THE STATE DEPARTMENT OF EDUCATION

BASE STUDENT COST (BSC):

Predetermined Cost of Educating 4-8 grade student x inflation factor = current BSC

INDEX OF TAXPAYING ABILITY (Index):

$$\frac{\text{District Taxable Property Wealth}}{\text{State Total Taxable Property Wealth}} = \text{District Index}$$

WEIGHTED PUPIL UNITS (WPU):

135 Average Daily Membership (ADM) in each EFA student category x each category weight = Total weighted pupil units

STATE APPROPRIATION FOR EFA (at full implementation):

State Total WPU x BSC x 70% + Teacher Incentive + Hold Harmless = Total State Appropriation

DISTRICT REQUIRED LOCAL EFFORT (at full implementation):

(State WPU x BSC) x 30% x District Index = Local Required Effort

30% is the total share contributed by local districts.

DISTRICT'S STATE FUNDS ENTITLEMENT:

(District WPU x BSC) - Local Required Effort + (Hold Harmless and/or Teacher Incentive, if applicable) = State Share

TEACHER INCENTIVE FUNDS:

(No. Teachers with Master's Degree or above) - (25% of the total # Teachers) = (# Teachers Eligible for Incentive) x (the percentage that the State's share is of the district's total foundation program) x (\$2,000) = \$ amount of Teacher incentive funds.

APPENDIX B (CONTINUED)

HOLD HARMLESS:

District's previous year's State revenue adjusted for change in pupil numbers and for inflation:

$$\frac{\text{District's Current ADM}}{\text{Previous Year's ADM}}$$

x District's Previous Year's State Revenue x (1 + inflation factor)
minus District's Current Year's State Revenues under EFA =

If the result is positive, the amount is the Hold Harmless amount to which the District is entitled.

If the result is negative, the District receives no Hold Harmless funds.

APPENDIX C
EQUITY FORMULAS AND ANALYSIS

This appendix explains the formulas and analysis used to show that the implementation of the Education Finance Act has resulted in more equitable funding for individual students among the State's school districts for the first year of implementation. The objective of this review in measuring revenue disparity (differences) was to observe, through statistical analysis, the effects of the EFA on increasing equity among the State's 92 school districts. The Council's analysis included only State and local revenues per pupil for FY 77-78 and FY 78-79, and excludes funds for adult education, summer school, building and construction, community services, and debt services. This appendix consists of two sections. The first is a description of the disparity formulas, and the second is a narrative description of the application and results of the formulas.

A. Formulas

Where:

i	=	the individual districts analyzed.
P_i	=	the number of pupils in district i .
n	=	the number of districts.
X_i	=	the local and State revenues per pupil in district i .
\bar{X}_p	=	the mean of local and State revenues per pupil for all pupils.
M_p	=	the median of local and State revenues per pupil for all pupils.

- (1) Range = Highest X_i - Lowest X_i .
- (2) Restricted Range = 95% X_i - 5% X_i and 75% X_i - 25% X_i .
- (3) Federal Range = $\frac{95\% X_i - 5\% X_i}{5\% X_i}$

$$(4) \text{ Relative Mean Deviation} = \frac{\left(\sum_{i=1}^n P_i |\bar{X}_p - X_i| \right)}{\left(\bar{X}_p \sum_{i=1}^n P_i \right)}$$

$$(5) \text{ McLoone Index} = \frac{\left(\sum_{i=1}^j P_i X_i \right)}{\left(M_p \sum_{i=1}^j P_i \right)} \quad \text{where districts 1 through } j \text{ are below } M_p.$$

$$(6) \text{ Coefficient of Variation} = \frac{\text{Standard Deviation of } X_i}{\bar{X}_p}$$

$$(7) \text{ Correlation Coefficient} = \text{Pearson's Product-Moment Correlation} =$$

$$r = \frac{\sum_{i=1}^n (X_i - \bar{X})(Y_i - \bar{Y})}{\left\{ \left[\sum_{i=1}^n (X_i - \bar{X})^2 \right] \left[\sum_{i=1}^n (Y_i - \bar{Y})^2 \right] \right\}^{\frac{1}{2}}}$$

where: X_i = i^{th} observation of variable X (wealth per pupil).

Y_i = i^{th} observation of variable Y (local and State revenues per pupil).

\bar{X} = mean of variable X.

\bar{Y} = mean of variable Y.

$$(8) \text{ Elasticity} = \text{slope of variable X (wealth per pupil)} \times \left(\frac{\bar{W}}{\bar{R}} \right)$$

where: slope of variable X = $\bar{R}_i = a + b_1 W_i$; solving for b_1 with \bar{R}_i = mean local and State revenues per pupil in district i , a = the intercept, b_1 = the slope, and W_i = wealth per pupil in district i .

\bar{W} = the mean of wealth per pupil for the entire State.

\bar{R} = the mean of local and State revenues per pupil for all pupils.

B. Analysis

Equity is reached when distribution of educational services is based on the students' needs regardless of geographic location or the ability of local taxpayers to fund the educational services. Fiscal disparities between the local governments arise due to the differences in their ability to raise funds in relation to their expenditure needs. For the State to achieve an equitable educational system, these local disparities need to be measured and corrected.

The range shows the dollar difference between the district possessing the lowest amount of per pupil revenues and the district with the highest amount of per pupil revenues. The range in per pupil revenues narrowed from \$1,072 in the first year to \$938 in the second year - a decline of 12.6%. When weighted pupil units were used in examining the range, it decreased by 15.3% from \$898 to \$761. These decreases of the range indicate a favorable improvement in equity.

The restricted range includes only school districts with per pupil revenues above the 5th percentile or below the 95th percentile. An undesirable result occurred according to this measure because it reflects a 6.3% increase in the range of per pupil revenues from \$479 the first year to \$509 the second. When the range was further restricted to include only those districts between the 25th and 75th percentiles in per pupil revenues, it agreed with the

unrestricted range by declining 13.7% from \$214 to \$185. In using revenues based on weighted pupil units, the 5-95 percentile restricted range increased by 9% while the range restricted to 25-75 percentile decreased by 15.2%.

The Federal Range is a ratio of the first restricted range (5th-95th percentiles) divided by the revenues per pupil at the 5th percentile. This measure, like the first restricted range, ignores the upper and lower 5th percentile of the distribution and is not sensitive to equal percentage increases such as uniform inflation. This ratio shows a reduction in disparity by 12.7% in per pupil revenues and 11.0% by weighted pupil units from FY 77-78 to FY 78-79.

The Relative Mean Deviation is a statistical measure ranging from 0.0 to 1.0 involving the difference between each district's revenue per pupil and the mean of revenues per pupil statewide. A decrease in this measure will represent an improvement in equity among all the districts. This will indicate that the averages of per pupil revenues in districts are moving closer to the average of per pupil revenues for the entire State. In FY 77-78 the relative mean deviation was .13 and declined to .10 in FY 78-79. This improvement in equity was also evident when revenues per weighted pupil unit were used in calculating this measurement.

Another indicator of disparity is the McLoone Index. It focuses on districts where per pupil revenues are below the median for all districts. The Index is a ratio of the per pupil revenues in districts below the median to the total revenue amount, if all per pupil revenues were at the median. This ratio is expressed as

a decimal between 0.0 and 1.0. The closer the Index is to 1.0, the greater is the equity among the districts that are below the median of per pupil revenues.

The Index also can show the dollar amount that would be needed to bring districts in the bottom half of the distribution up to the median level of all per pupil revenues. If this amount decreases from year to year it indicates that a growth in equity is occurring among the districts below the median. For FY 77-78, the median per pupil revenue of local and State sources was \$876.91. There were 633,831 pupils enrolled in the State during this period with the McLoone Index equalling .88. Thus, $(1-.88) \times \$876.91 \times 633,831$, or \$66,141,716.32 would have been needed to bring FY 77-78 per pupil revenues that were below the median up to the median level of all school districts. Comparing to FY 78-79, the median per pupil revenues of local and State sources was \$992.15. With the Index of .93 and the total pupils in the State being 627,445, then $(1-.93) \times \$992.15 \times 627,445$, or \$43,576,368.97 would have been needed. This reduction by 34.1% of the total dollars needed to bring all students up to the median for this time period, shows that the districts below the median have become more equitable. For weighted pupil unit revenues, the amounts needed to attain the median were \$62,088,773.12 and \$45,034,398.34 in FY 77-78 and FY 78-79 respectively.

The coefficient of variation is a test for the inequity in per pupil revenues among all students. This measure represents the standard deviation divided by the mean of per pupil revenues in all districts. For FY 77-78 and FY 78-79, the coefficients of

variation for revenue per pupil were 18.14% and 14.74% respectively. This decline in variance again indicates that an increase in equity occurred. The coefficient of variation is expressed as a percentage because of its usefulness in interpretation. For example, assuming a normal distribution, a coefficient of variation of 18 means that approximately two thirds of the students would have revenues within $\pm 18\%$ of the statewide average of per pupil revenues. When weighted pupil units were used in calculating the coefficient of variation, it indicated an improvement in equity because it decreased from 18.35% to 14.63% in the second year.

Another statistical measure of disparity usually associated with regression analysis, is Pearson's Product-Moment Correlation Coefficient. The Coefficient (r) ranges from -1.0 to 1.0. An r of 1.0 would indicate that a perfect linear relationship existed between per pupil wealth and per pupil revenues. In FY 77-78, the r was .61 between per pupil wealth and per pupil revenue indicating that a moderately strong relationship existed. In FY 78-79, the r value decreased slightly to .59. As the strength of the relationship declines, an increase in equity is indicated. When the r value is squared, it becomes a measure of the amount of variance in the dependent variable (revenues) that is explained by the variance in the independent variable (wealth). When the amount of variance in revenues that can be explained by the variance in wealth decreases, it means that equity among school districts has improved.

Slope is a measure of the magnitude of the relationship between per pupil wealth and per pupil revenues in absolute terms. It is the amount of change in the dependent variable (revenues) for a

unit of change in the independent variable (wealth). Similarly, elasticity is a measure of the magnitude of the relationship between dependent and independent variables. However, it is expressed as a percentage. For example, a one percent change in the independent variable (wealth) will be associated with a given percent change in per pupil revenues.

For FY 77-78, the relationship between school districts' wealth per pupil and revenue per pupil is .61 as indicated by the correlation coefficient in the following table. By squaring the correlation to .38, the Council found that the districts' wealth per pupil explains 38% of the districts' local and State revenues. Since the elasticity of this relationship between wealth and revenues of the districts is .25 and the sum for local and State revenues per pupil for the 92 districts is \$82,223.41 for FY 77-78, these data indicate that for every 1% increase in wealth there is only a .25% increase in revenues. Or put differently, wealth had to increase by 4% for revenues to increase by 1% (\$82.22 per pupil). With statewide local and State revenues per pupil totalling \$94,579.16 in FY 78-79 and the elasticity of the correlation equalling to .19, then a 5% increase in a district's wealth would have to occur for its revenues to increase by 1%, or \$94.58 per pupil.

Generally, when the correlation coefficient, the slope, and elasticity decline, they indicate that equity has improved. The table below displays these statistics and related values resulting from the calculations using FY 77-78 and FY 78-79 data.

		<u>FY 77-78</u>	<u>FY 78-79</u>
r	=	.61366	.58901
r ²	=	.37658	.34697
variance	=	26,000	22,706
standard deviation	=	162	152
intercept	=	674	830
slope	=	.05728	.05127
\bar{W}	=	\$3,832.74	\$3,860.02
\bar{R}	=	\$ 893.73	\$1,028.03
elasticity	=	.24561	.19115

Conclusion

According to the statistical measures of equity used in this study, equity in per pupil revenues among school districts appears to have improved slightly since implementation of the Act. However, with data from only one year of the EFA included in the analysis, it would be premature to draw final conclusions about the equity of the State's school finance system.

APPENDIX D

GLOSSARY OF TERMS AND ABBREVIATIONS

Accreditation - The process used to ensure school and district compliance with educational standards set out in the Defined Minimum Program. Every school receives an accreditation rating to indicate the degree of its compliance.

Add-on Method - A method of counting students which counts students first in the category where they spend most of their time. Students who also receive services within other categories are counted a second time.

Annual Reports of the Superintendent - Refers to the financial reports sent by district superintendents to SDE by August 15.

Average Daily Attendance (ADA) - Total number of students enrolled minus those absent, and averaged for the number of days specified.

Average Daily Membership (ADM) - A method of counting students belonging in various weight classifications. Enrollment is averaged over 135 of the 180 days schools are in session.

Base Student Cost (BSC) - The amount of money required to provide the Defined Minimum Program for the most economically educated student in the school system. This has been determined by SDE, to be those students in grades 4 through 8, in a regular classroom setting. The BSC figure is established each year by the Legislature.

Basic Educational Data System (BEDS) - A computerized reporting system which provides statistical information on each school. The information is provided for use in monitoring compliance with the Defined Minimum Program (DMP).

Category, Classification - Any specific student definition that is assigned a single weighting, i.e., kindergarten, speech, vocational. These terms are used interchangeably in the Act with "program."

85% Clause (Expenditure Requirements) - A provision of the EFA which requires school districts to expend 85% of the dollars generated by the pupil membership in the categories where the students generating the revenues are classified.

Defined Minimum Program (DMP) - The program established annually by the State Board of Education that is necessary to provide public school students in South Carolina with minimum educational programs to meet their needs. The DMP provides the criteria establishing cost estimates of the foundation program (Base Student Cost). Districts must give first spending priority of funds allocated under EFA to meeting standards established by the DMP.

APPENDIX D (CONTINUED)

EFA - Educational Finance Act of 1977.

Exceptional - Educational categories other than regular or vocational/technical, i.e., handicapped or gifted.

"Flat Grant" Funding - The method used for educational financing prior to the 1977 EFA. Funds were allocated to school districts based a specified student count.

Formula, EFA Formula - The funding formula which determines State and local allocations to school districts.

Full-Time Equivalency (FTE) - A method of counting students for funding purposes which counts a student in each weight category according to the time spent in each category.

Hold Harmless - No district receives less State money than it received on a per pupil basis at the time the Act was passed.

Index of Taxpaying Ability - A formula used to compute the local school district's property taxing capacity in relationship to all other districts in the State. The formula divides district property wealth by total State property wealth and therefore, provides a percentage of State wealth taxable in each district. The State Tax Commission determines the index in order to remove differences in districts' assessment of property (see also Act 208 of 1976).

Inflation Factor - A cost factor developed to indicate the needed percentage increase in the BSC to counter inflation.

In-Service - Professional training required of school staff each year (in addition to college courses needed to maintain certification).

Leeway - There is no statutory prohibition on the amount of money raised by a local school district above that required for participation in the minimum program. All monies raised in a local school district would remain in the district. Also used to refer to money in the Base Student Cost not taken up with meeting the DMP.

McLoone Index - A measure which examines the amount of State and local funding which would be needed to raise the revenues of all lower revenue districts up to the State median for per pupil revenues.

Phase-in - EFA has as one of its purposes State assumption of 70% of the cost of providing the basic education of the State's students. Currently the percentage is 67%. The 70% assumption will be reached in steps by 1983.

APPENDIX D (CONTINUED)

PL 94-142 - The Education for all Handicapped Children Act of 1975 (implemented in 1977). Federal law requiring the State to provide a free, appropriate education, in the least restrictive environment, to handicapped students (ages 3-21).

Program - The combination of educational activities designed to meet a student's specific needs. For example, one student's program may consist of classes in regular, vocational and handicapped categories. This term is used interchangeably in the Act with "classification."

Salary Schedule - Minimum salaries to be paid teachers, by classification and years experience, based on an index established by EFA.

SBE - State Board of Education.

SDE - State Department of Education.

Superintendent's Annual Report - Report to the Legislature by the State Superintendent each legislative session.

Teacher Incentive - Additional funds are given to districts for each teacher (in excess of 25% of staff) with a Master's Degree or higher certification.

Title I - Federal funding program for educationally disadvantaged children, to provide reading and math programs in a special class or alternate approach. South Carolina receives approximately \$15 million annually.

Weighting System (Weightings) - Cost ratio assigned to different student classifications based on the relative cost of their educational program to that of the base student, which is given a weighting of 1.00. See "Base Student Cost." All other categories of students, particularly vocational and handicapped, require additional services, thus their weightings are greater. In South Carolina a pupil is counted in only one educational category, regardless of other educational services received.